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STATISTICAL SAMPLING IN THE EXAMINATION OF VOUCHERS

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BEFORE A

SUBCOMMITTEE OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES

EIGHTY-EIGHTH CONGRESS
SECOND SESSION

ON

H.R. 10446

A BILL TO PERMIT THE USE OF STATISTICAL SAMPLING
PROCEDURES IN THE EXAMINATION OF VOUCHERS

MAY 27, 1964

Printed for the use of the
Committee on Government Operations



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STATISTICAL SAMPLING IN THE EXAMINATION OF VOUCHERS

(H.R. 10446)

WEDNESDAY, MAY 27, 1964

HOUSE OF REPRESENTATIVES, EXECUTIVE AND
LEGISLATIVE REORGANIZATION SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 1501-B, Longworth Office Building, Hon. William L. Dawson (chairman) presiding.

Present: Representatives William L. Dawson, Henry S. Reuss, Benjamin S. Rosenthal, and John B. Anderson.

Also present: Elmer W. Henderson, subcommittee counsel; James A. Lanigan, general counsel, Committee on Government Operations; Miles Q. Romney, associate general counsel, Committee on Government Operations; and J. P. Carlson, minority counsel, Committee on Government Operations.

Chairman DAWSON. Gentlemen, we are very grateful for your presence here this morning and for your interest in the affairs of Government. This is a very serious matter and we feel that we ought to have as much expert advice as we can get on it, and so we are grateful for your presence here today.

These hearings have been called to consider H.R. 10446, a bill introduced by our colleague, Congressman Rosenthal, who sits here at the head of the table, at the request of the Bureau of the Budget.

The bill would alter the method of examining vouchers prior to payment in the executive departments and agencies. At the present time, every voucher, regardless of amount, is examined for its propriety and correctness. Under the bill, only a sample of the vouchers would be examined. The sample, however, would be selected by statistical sampling procedures. This change is justified by the Bureau because of the significant savings that would result.

Our witnesses today include representatives from the Bureau of the Budget, the General Accounting Office, and the Treasury Department. We also invited the comments of the American Institute of Certified Public Accountants and the American Statistical Association. Both organizations have kindly sent representatives who will also testify.

(H.R. 10446 follows:)

[H.R. 10446, 88th Cong., 2d sess.]

A BILL To permit the use of statistical sampling procedures in the examination of vouchers

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, (a) That, whenever the head of any department or agency of the Government or the Commissioners of the District of Columbia determines that economies will result therefrom, such agency head or the Commissioners may prescribe the use of adequate and effective statistical sampling procedures in the examination of disbursement vouchers; and no certifying or disbursing officer acting in good faith and in conformity with such procedures shall be held liable with respect to any certification or payment made by him on a voucher which was not subject to specific examination because of the prescribed statistical sampling procedure.

(b) Nothing contained in this Act shall affect the liability, or authorize the relief, of any payee, beneficiary, or recipient of any illegal, improper, or incorrect payment, or relieve any certifying or disbursing officer, the head of any department or agency of the Government, the Commissioners of the District of Columbia, or the Comptroller General of responsibility to pursue collection action against any such payee, beneficiary, or recipient.

We will first hear from William J. Armstrong, Chief of the Office of Financial Management of the Bureau of the Budget.

Chairman DAWSON. You may proceed, Mr. Armstrong.

STATEMENT OF W. J. ARMSTRONG, CHIEF, OFFICE OF FINANCIAL MANAGEMENT, BUREAU OF THE BUDGET; ACCCOMPANIED BY RAY J. NEWBOLD, OFFICE OF FINANCIAL MANAGEMENT

Mr. ARMSTRONG. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear before you to discuss H.R. 10446, a bill to permit the use of statistical sampling procedures in the examination of vouchers.

This legislation was developed as a result of a study which was conducted under the joint financial management improvement program. As you know, this program for improving financial operations throughout the Government is spearheaded by the Bureau of the Budget, the Treasury Department, and the General Accounting Office in collaboration with all other agencies. The program has enjoyed the excellent support of this committee.

The administrative examination of vouchers process was identified as an area in which better manpower utilization might be achieved. This was discussed with joint program representatives of the various agencies and the desirability of conducting a study was agreed upon.

The Department of Health, Education, and Welfare volunteered to conduct a study in that Department of the feasibility of using statistical sampling in the administrative examination of vouchers. The study encompassed the vouchers processed by the Department over a 5-week period—about 61,000 vouchers amounting to approximately \$25 million. Copies of the report prepared by HEW as a result of its study have previously been made available to the staff of this committee. The report indicates an annual savings of about \$270,000 under a statistical sampling plan deemed appropriate for HEW.

The Department of Agriculture also conducted a study of the application of statistical sampling. Based upon its study, Agriculture estimated a savings of between \$400,000 and \$500,000 a year.

The Bureau of the Budget, the Treasury Department, and the General Accounting Office discussed the results of these studies with HEW and Agriculture and with representatives of the other major executive branch agencies. The conclusion was that under appropriate circumstances the use of statistical sampling could achieve better manpower utilization and bring about monetary savings without losing the intangible and deterrent advantages of examining every voucher.

This conclusion was based upon the fact that significant improvements have been made in agency accounting systems and related areas of internal control during the past 15 years. These improvements have a direct and significant bearing on the need for conducting a detailed examination of every expenditure voucher.

For example, agency systems, independent of the voucher examination process, provide a means of determining that funds are properly obligated; services and materials are actually received, and that the quality, quantity, and price are in accord with obligating documents.

A great deal of the unnecessary checking and doublechecking of vouchers is caused by statutory provisions which hold a certifying or disbursing officer personally liable for incorrect payments. In addition, the General Accounting Office has ruled that, under existing legislation, the use of statistical sampling in the voucher examination process is not permissible. These are the things that H.R. 10446 seeks to remedy.

Section (a) of the bill permits the head of an agency to prescribe the use of adequate and effective statistical sampling procedures in the examination of disbursement vouchers. This provision is not mandatory, it is permissive, and is based upon a determination by the head of an agency that statistical sampling will bring about economies. We understand that the General Accounting Office, upon enactment of H.R. 10446, plans to issue guidance to the agencies on the use of statistical sampling in voucher examination as part of its overall responsibility for prescribing principles, standards, and related requirements for accounting. GAO will also review the statistical sampling procedures developed by agencies as part of its responsibility for review and approval of accounting systems.

Section (a) further provides that a certifying or disbursing officer, acting in good faith, will not be held liable with regard to certification and payment on a voucher not subject to specific examination because of a prescribed statistical sampling procedure. This provision is necessary; otherwise certifying or disbursing officers would feel compelled, under their personal liability, to make a complete check of each voucher.

Section (b) of the bill protects the interest of the Government by making it clear that the payee, beneficiary, or other recipient of an improper payment continues to be liable therefor, and that the administrative agency concerned has a continuing responsibility for collection action.

H.R. 10446 has the full support of the administration. It will make a contribution to the achievement of better manpower utilization and bring about monetary savings. We urge its enactment by the Congress.

Chairman DAWSON. Mr. Reuss.

Mr. REUSS. Thank you, Mr. Chairman, and thank you, Mr. Armstrong, for your presentation here.

What is statistical sampling, what does it mean, is that just sampling?

Mr. ARMSTRONG. It means not examining every voucher, not examining 100 percent of the vouchers. It means sampling on a selective basis. Statistical sampling techniques have been developed in the last number of years to a point where statistical sampling can indicate fairly accurately the degree of error that you may expect, depending upon the size of the sample that you take.

Chairman DAWSON. You said in the last number of years—would you indicate how many, 10, 20, 30, 50 years?

Mr. ARMSTRONG. I would say in the last 10 or 15 years. I think the representatives from the statistical association can probably give you a better indication on that.

Mr. REUSS. Since our concern in approving this bill will be to explain it on the floor, I am anxious that we not march under a banner of phrases that do not have any particular meaning. Why not just sampling? That is what I would have thought was what you were doing. Is there anything more complex here than maybe that you take one out of every thousand or one out of every hundred or one out of every twenty?

Mr. ARMSTRONG. You take one out of a certain number, but it is on a scientific basis.

Mr. REUSS. Tell me so that I may tell my colleagues who will probably ask, "What is the science?" I would not think that you needed it on a scientific basis. I would think that one in a hundred or one in a thousand would be sufficient. Why depart from that simple sampling?

Mr. ARMSTRONG. Well, you would not want to examine all the invoices from one vendor and omit the invoices from another vendor. You might want to sample a number from each of the vendors under certain circumstances. However, on a scientific basis the opportunity for selection is the same for all vouchers.

Mr. REUSS. The draft bill does not give any definition of "statistical sampling," does it?

Mr. ARMSTRONG. No; it does not.

Mr. REUSS. Maybe I am just ignorant about what the phrase means, that perhaps every schoolboy knows.

Mr. ARMSTRONG. Let us take the case of travel vouchers. In sampling travel vouchers under scientific sampling, each voucher would have equal opportunity for selection. Other considerations are that you might take one voucher, or several vouchers, for each traveler. You would not examine all of the vouchers for one traveler, but you may want to take, at least, some for each traveler in order to see whether or not mistakes are being made. If you found that one traveler is making mistakes in his travel voucher, then you would increase the coverage. If you find that on the basis of the selection a traveler's vouchers are fairly accurate, then the size of the review might be less.

Mr. REUSS. What you have said is most excellent commonsense, but I object to dressing this up in great scientific lingo because I do not think that it adds to the meaning to say statistical. I still do not have any sense, frankly, of what statistical sampling is. What you propose to do here is sampling and if you are asked, "Do you hope to do sensible or nonsensible sampling," I am sure that your answer is "sensible."

Mr. ARMSTRONG. Yes, sir.

Mr. REUSS. Is there any more than that to the statistical—does it mean other than that?

Mr. ARMSTRONG. I think, probably, the statistical association representatives will be in a better position to comment upon the scientific angle of this.

Mr. REUSS. Well, I will ask them. I am not contemplating any changes in the wording, but, perhaps, in our report we can cover that. Unless we get a better answer about statistical sampling, I would hope that our report could spell out the legislative meaning to show that all we meant was to use your head in deciding what sampling technique is to be used.

You spoke of studies conducted by the Department of Health, Education, and Welfare which affected a savings of \$270,000. Did those studies go to the question of whether the use of sampling, rather than a complete inspection of vouchers, allowed to sift through any vouchers that should not have been paid?

Mr. ARMSTRONG. Yes; the Department of Health, Education, and Welfare study encompassed a 5-week period, some 61,000 vouchers amounting to \$25 million. They broke that down into amount categories. For vouchers under \$100 their study indicated that they were spending about \$33,000 to examine those and that under a statistical sampling plan, about \$5,000 might have sifted through. They were spending \$33,000 to save \$5,000.

Mr. REUSS. How did they determine the \$5,000 figure?

Mr. ARMSTRONG. That was based upon the average error in the total vouchers, based upon an examination of all of the vouchers.

Mr. REUSS. In other words, for a given group of vouchers, they not only examined them on a sample basis, one in one hundred or whatever it was, but they also examined every one, is that correct?

Mr. ARMSTRONG. They did not examine them on a sample basis. They examined them on a 100-percent basis and then it was determined that if they had examined them, say, on a 10-percent basis, which they recommended be done for Health, Education, and Welfare, that about \$5,000 would have been lost.

Mr. REUSS. Out of how much? How many improper expenditures did that total?

Mr. ARMSTRONG. For those under \$100 it covered 40,000 vouchers amounting in total to \$1,500,000.

Mr. REUSS. How about those over \$100, the remaining 20,000?

Mr. ARMSTRONG. Those over \$100 amounted to \$19 million—20,000 vouchers amounted to \$19 million; 40,000 under \$100, amounted to \$1,500,000—to make a total of 61,000.

Mr. REUSS. So that the total of \$20,500,000 of improper payments were disclosed by those vouchers?

Mr. ARMSTRONG. No; not improper payments. That is the total of the vouchers.

Mr. REUSS. The total of the vouchers?

Mr. ARMSTRONG. That were examined.

Mr. REUSS. My question was: What was the total of improper payments which those vouchers, had they been paid, would have resulted in.

Mr. ARMSTRONG. For those under \$100, if a statistical sampling plan had been in effect, sampling about 1 out of every 10 vouchers, they would have lost about \$5,000.

Mr. REUSS. No, I will have to try again. They examined all the Department of Health, Education, and Welfare 61,000 vouchers.

Mr. ARMSTRONG. Yes.

Mr. REUSS. They examined the whole works?

Mr. ARMSTRONG. Yes.

Mr. REUSS. How much in dollar value of improper payments was involved in those 61,000 vouchers?

Mr. ARMSTRONG. \$85,000.

Mr. REUSS. That is in all?

Mr. ARMSTRONG. Yes.

Mr. REUSS. \$85,000?

Mr. ARMSTRONG. Yes.

Mr. REUSS. And then they did a dry run, did they, of the statistical samples, so-called, on the same 61,000?

Mr. ARMSTRONG. No, they computed that if they had made a sample just of 1 out of every 10, that they would not have caught part of this amount of \$85,000.

Mr. REUSS. Well, you have to fill me in rather completely on this, because we will be asked on the floor just how did they run this test. If they run it by flipping coins, I would have thought that they would have only caught \$8,500 out of the \$85,000 and they would have lost \$78,000 and you would not be here today asking for the statistical sample method; therefore, there must have been some better method than just taking 1 out of 10—do you follow me?

Mr. ARMSTRONG. Yes. Maybe we had better talk about what they proposed, first. They did not propose, because of the amount that they would have lost by this computation, that they would apply statistical sampling to all of the vouchers. Their recommendation was that they apply statistical sampling to the vouchers in amounts less than \$100 because that is where they would save money; in other words, they were spending \$33,000 to catch \$5,000. Above \$100 they recommended a complete examination of all vouchers, because they would recover an amount that would be greater than the expenses that they incurred in the examination.

Mr. ROSENTHAL. So that the record is straight, you meant \$100. I believe you said \$100,000.

Mr. ARMSTRONG. Yes.

Mr. REUSS. This bill relates to sampling procedures without regard to amount?

Mr. ARMSTRONG. Yes—without regard to amount, but the General Accounting Office plans to prescribe criteria for the guidance of each agency in developing this statistical sampling system. Each agency has to develop a system appropriate to its own use and that would be within the framework of the principles and standards prescribed by General Accounting Office.

Mr. REUSS. Would you continue then with your breakdown of this Health, Education, and Welfare study of 61,000 vouchers. The first fact which I think I grasp is that taking the whole 61,000 vouchers, both those over 100 and those under 100, there was a total of \$85,000 of improper requests for payments included, is that correct?

Mr. ARMSTRONG. That is correct.

Mr. REUSS. Now, how does that \$85,000 break down as to the \$100?

Mr. ARMSTRONG. Under \$100, the amount was \$5,000.

Mr. REUSS. And over \$100?

Mr. ARMSTRONG. Over \$100, \$79,500.

Mr. REUSS. So far, it certainly looks as if the place to make hay is under \$100 and that we lose money if we apply it to over \$100.

Mr. ARMSTRONG. Yes.

Mr. REUSS. And they steal more than we save by not examining every voucher. This seems to be not very good economy.

Mr. ARMSTRONG. If HEW did apply the sampling under \$100, it would save about \$268,000 a year; but I think that each agency has to make a feasibility study of its own operations and determine what is an appropriate basis upon which to proceed.

Mr. REUSS. Would this really vary very much between agencies? If Congress is going to relax what has been for better or for worse, a requirement of complete voucher inspection over the years, I would think twice about wanting to relax it in an area that is over \$100, which I have just been told costs money to relax it on—it cost more in mistaken payments than we save in exemption from examination.

Mr. ARMSTRONG. Administrative limits could be established. I think the General Accounting Office criteria, and they may want to speak on that, would deal with that question. That is the criteria for the guidance of the agencies.

Mr. REUSS. Do you know any reason why, on the basis of what you tell me about Health, Education, and Welfare's study, a limit should not be put in the bill—a limit below which statistical sampling would be permitted but above which it would not be, as at present?

Mr. ARMSTRONG. Well, I think that the limit will vary in the different agencies, and I think that if there is administrative flexibility to establish a limit then the system can be developed to meet the specific needs of each agency. I am not sure that the same rule would apply in all agencies.

Mr. REUSS. I have just one more question.

In your prepared statement, you made the following statement at the bottom of page 2:

For example, agency systems independent of the voucher examination process, provide means of determining that funds are properly obligated: services and materials are actually received, and that the quality, quantity, and price are in accord with obligating documents.

What are these agency systems? I thought that was what a voucher inspection did. Are you saying we have been doing it twice, and, if so, what is the other thing that we are doing?

Mr. ARMSTRONG. I think that there has been some duplication. An obligation document is prepared when goods are ordered. The amount of the order is obligated against the available funds. Then when the goods are received they are inspected, checked in, and a receiving report is prepared which indicates whether they were received in the quantity, type, and quality ordered. Then the invoice from the vendor comes in and the obligating document, the receiving report, and the invoice are matched up. That work is usually done before these papers go to the certifying officer. Then they go to the certifying officer and another examination will be made there of the mathematical accuracy, to see that the quantity agrees with the quantity ordered and the price agrees, and so forth. So there is, to some

extent, duplication. That will vary, of course, among the different agencies but certifying officers, being personally liable, are inclined to make a meticulous check of every voucher because if an exception is taken to a voucher, then that exception is stated against him personally.

Mr. REUSS. Then what is the function of the voucher examination process as it exists?

Mr. ARMSTRONG. That is to review the documents when they are all brought together; to review the mathematical accuracy and the supporting documents before they are certified and sent to a disbursing officer for payment.

Mr. REUSS. Under the agency system does the certifying officer certify to his own vouchers?

Mr. ARMSTRONG. As to his own?

Mr. REUSS. Yes; his own—can he certify to those?

Mr. ARMSTRONG. The expenditures that he incurs personally, you mean?

Mr. REUSS. Yes.

Mr. ARMSTRONG. Yes; I think he does.

Mr. REUSS. One of the purposes of a voucher inspection procedure, I would guess, is to check up on him then, it is not?

Mr. ARMSTRONG. Yes, of course, he would not be in a position to do a great deal of ordering. Most of the ordering will be done from the procurement side of the house.

Mr. REUSS. Have you got a breakdown of the \$85,000 of misapplied Government funds contained in the Health, Education, and Welfare study?

Mr. ARMSTRONG. On page 10 of the Department of Health, Education, and Welfare report it is set out.

Mr. REUSS. I am looking at table 5 right now.

Mr. ARMSTRONG. Table 6.

Mr. REUSS. Tables 5 and 6.

Mr. ARMSTRONG. Yes.

Mr. REUSS. Of the \$85,000, "Incorrect computations," \$10,387; "Unapproved or unauthorized items," \$8,349; "Inadequate documentation or explanation," \$21,163; "Duplicate billings," \$19,019; "Refunds requested," \$5,824; "Amounts claimed or deliveries made contrary to authorization," \$19,985.

Have you any idea how much of that \$85,000 turned up under the regular agency system—to what extent was the voucher examination redundant to all or part of that \$85,000?

Mr. ARMSTRONG. I could not answer that question.

Mr. REUSS. Would you find out?

Mr. ARMSTRONG. All right.

Mr. REUSS. I really think to consider the legislation intelligently we will need to know exactly what are the various agency systems in the first instance. Maybe if you had decent agency systems you would not need any voucher examination at all, statistical sampling under or over \$100 or whatever else. I suppose because we are into this that we have to get these things through our minds somehow so that if you would furnish us at this point in the record with a breakdown of these \$85,000 and how much of it would have been caught by a simple agency system, it would help.

Mr. ARMSTRONG. We will be glad to do that.

(The information follows:)

(Mr. Armstrong subsequently submitted the following:)

The Department of Health, Education, and Welfare advises that information was not accumulated during the course of its voucher examination study as to the amount of the errors which were discovered by the internal control system as contrasted with the amount discovered at the point where the vouchers were examined prior to certification for payment.

Mr. REUSS. Also, any enlightenment you can give us under the over and under \$100 split as between Health, Education, and Welfare and any other agencies, and if other agencies do not have such a split what are the reasons as to why what is good for Health, Education, and Welfare does not apply to the other agencies.

Mr. ARMSTRONG. Very well.

Mr. REUSS. Thank you, Mr. Chairman. That is all.

Chairman DAWSON. Mr. Anderson.

Mr. ANDERSON. If we were to pass this legislation as it is before us, as it is drafted, would the General Accounting Office have legal authority under present statutes to prescribe administrative criteria by which this statistical sampling plan would be administered—do you know the answer to that?

Mr. ARMSTRONG. They can speak to that better than I can, but my impression is that they have ample authority to do that under the Budget and Accounting Procedures Act of 1950.

Mr. ANDERSON. Perhaps I should reserve that for someone from the General Accounting Office. Do we have someone from the General Accounting Office here?

Chairman DAWSON. Yes.

Mr. ANDERSON. The other question I have is this, as to the statistical sampling method would it be employed by the General Accounting Office to the Department of Defense?

Mr. ARMSTRONG. The Secretary of Defense would be authorized to study his operation and to determine whether or not the statistical sampling plan was advantageous in his Department. If he found that it was advantageous then the sampling plan would be developed under the framework of the General Accounting Office principles.

Mr. ANDERSON. The reason that I asked this is because I see in my work on the private calendar that we are literally smothered with private bills there, people from the Armed Forces, the Coast Guard, the Navy, the Army, who have either been overpaid, because they got per diem that they should not have gotten, or they were violating the rule of compensation law or something, then they run in with a bill and want to be relieved of the obligation to repay the Government for money that they should never have received in the first place. I just wonder in view of the large number of those cases whether the employment of this system in the Department of Defense and in some of those agencies would not mean an awful lot of these things that would go through without ever being caught by anybody.

Do we have anybody here from the Department of Defense?

Chairman DAWSON. No.

Mr. ANDERSON. The only two agencies, then, that have really made a study of the application of this system are the Department of Health, Education, and Welfare and the Department of Agriculture?

Mr. ARMSTRONG. Yes, sir.

Mr. ANDERSON. Did you ever answer the question that I thought was posed to you by Mr. Reuss as to the advisability of incorporating in the statute a definite figure below which this system would be employed but above which it would not be employed?

Mr. ARMSTRONG. I indicated that I thought that it would be desirable to have administrative flexibility, because I am not sure that the same limit would be appropriate in each agency. It might be \$100 in one agency, it might be \$50 in another agency, and \$200 in another agency, depending upon the individual circumstances involving voucher examination work—the size of the vouchers, and so forth.

Mr. ANDERSON. Would it be utterly impractical for us, before passing on this legislation, to have the results of a study in all of the agencies as to what the effect of the application of this system might do?

Mr. ARMSTRONG. Well, I think that you have this safeguard. As I indicated, the General Accounting Office will prescribe the principles and standards. The General Accounting Office, also, is responsible for reviewing and approving the accounting systems of each agency. When those systems come up for their review and approval, the statistical sampling plan will be part of the system and it will be subject to their review.

Mr. ANDERSON. That really answers the first question I had which seems, then, that they would have the authority to pass upon a cutoff figure that might be adopted by each agency in the Government.

Mr. ARMSTRONG. They will be able to express an opinion on it to the agency as to whether or not they think it is adequate. If it is a figure that they consider too high, then I assume that they would not approve the system.

Mr. ANDERSON. Thank you. That is all.

Chairman DAWSON. Mr. Rosenthal, the author of the bill.

Mr. ROSENTHAL. Mr. Armstrong, if you put a figure of \$100 into the bill, which has some merit, do you think that perhaps some scoundrels would become aware of this after the passage of the legislation and we would lose the effect of it and they might get to work and form a Below \$100 Club?

Mr. ARMSTRONG. Well, I think that the statistical sampling plan, if it is worked out on a scientific sampling basis, will reveal any Under \$100 Clubs.

Mr. ROSENTHAL. I think that our colleagues on the floor will ask, "If you use this statistical sampling method rather than the item-by-item check, will there be less deterrent on the part of the scoundrels in the Government?"

Mr. ARMSTRONG. I think the other features of the accounting and internal control system have to be considered. When goods are ordered, obligations are established. When goods are received, receiving reports have to be prepared indicating that the goods have been received and inspected. Those papers come together with the vendor's invoice so there is a means of detecting duplicate invoices and incorrect invoices and so forth through that phase of the voucher processing, separate and apart from the administrative examination at the certifying officer's point.

Mr. ROSENTHAL. This would cover things other than the purchase of goods. It would cover travel and many other things.

Mr. ARMSTRONG. Yes.

Mr. ROSENTHAL. And you do not think that the fact that people who know there is not an individual item check will in any way affect their desire to defraud the Government or to commit errors of any kind?

Mr. ARMSTRONG. We have to refer to the experience in other areas. I think on tax returns everyone knows that there is not a complete check of every return. I do not think that causes taxpayers to try to defraud the Government because it is on a statistical sampling basis. They are the ones that are liable to be audited. The same way with vouchers; they do not know which ones will be audited.

Mr. ROSENTHAL. On page 2 of your statement you say that the Department of Health, Education, and Welfare study projected a saving of \$270,000 if the plan were to go into effect.

Mr. ARMSTRONG. Yes.

Mr. ROSENTHAL. How would that savings show up in the budget—would there be less people involved or what?

Mr. ARMSTRONG. Less manpower involved, yes.

Mr. ROSENTHAL. And the same thing would hold true for the Department of Agriculture? Has anyone projected, if all of the agencies were to adopt this program, what the total savings would be for the Federal Government?

Mr. ARMSTRONG. No; that is very difficult to project, because the statistical sampling plans have to be worked out for each department and tailored to each specific department. And if a limit is set, it has to be determined on the basis of the workload and other circumstances in that department. So it would be very difficult, without a detailed study by each department, to predict the total dollar savings on a definite basis.

Mr. ROSENTHAL. I have no further questions. Thank you.

Chairman DAWSON. Mr. Lanigan.

Mr. LANIGAN. No questions.

Chairman DAWSON. Mr. Henderson.

Mr. HENDERSON. Mr. Armstrong, do you think it would be feasible to enact the bill on an experimental basis with a time limit for its operation; to see whether or not it would be successful, and then later, maybe, to enact it permanently?

Mr. ARMSTRONG. Yes, it could be done that way, but it seems like there are monetary savings here that everyone is interested in and we would like to get it into effect on a Government-wide basis. If it were on a trial basis, say, for a limited period of time, that would mean that the agencies would have to make a feasibility study to get it into effect, and if it were not continued, there would be staffing and other problems involved.

Mr. HENDERSON. You see nothing in the accountability laws whereby this would be likely to produce any difficulties?

Mr. ARMSTRONG. I do not believe so, Mr. Henderson.

Mr. HENDERSON. I noticed it has been stated that the General Accounting Office has the authority that you mentioned previously. But would they use that authority under this bill to specifically approve of the plan that may be proposed to them? The bill gives the discretion to the head of the department as to the method that would be put into effect. The General Accounting Office, I could see, would lay down broad guidelines. But should the specific detailed plan be pre-

sented to the General Accounting Office for approval or disapproval before it is put into effect? Or to the Bureau of the Budget, or both?

Mr. ARMSTRONG. I do not think it should be presented to the Bureau of the Budget. I think the General Accounting Office contemplates that the plan will be a part of the total accounting system of the agency that is submitted to them for review and approval—not as a separate package. Of course, the General Accounting Office will be exposed to the plan in another way; that is, through their audit in the agencies.

Mr. HENDERSON. That is all. Thank you.

Chairman DAWSON. Do you have any questions?

Mr. LANIGAN. I was just wondering what the relationship between the development of statistical sampling and the development of high-speed equipment might be—the development of the ADP equipment—would that make it feasible to rapidly scan all vouchers and eliminate the need for statistical sampling methods?

Mr. ARMSTRONG. I am not sure that the ADP can be applied to the examination process as such. I have not heard of any studies being made in that direction. Of course, the use of ADP is being expanded all the time. It is conceivable that in the future ADP applications might be appropriate. But I doubt whether it is feasible for the voucher examination process.

Mr. LANIGAN. The Bureau of the Budget has not made any study along that line?

Mr. ARMSTRONG. No.

Mr. LANIGAN. Thank you. That is all.

Chairman DAWSON. Thank you very much, Mr. Armstrong.

Mr. ARMSTRONG. Thank you.

Chairman DAWSON. Our next witness will be Frederic H. Smith, Deputy Director, Accounting and Auditing Policies Staff, who is accompanied by Charles M. Bailey, Deputy Director, Defense Accounting and Auditing Division, and Edward A. J. Chicca, attorney, Office of General Counsel, General Accounting Office.

We will be glad to hear from you now.

STATEMENT OF FREDERIC H. SMITH, DEPUTY DIRECTOR, ACCOUNTING AND AUDITING POLICY STAFF, GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY CHARLES M. BAILEY, DEPUTY DIRECTOR, DEFENSE ACCOUNTING AND AUDITING DIVISION; AND EDWARD A. J. CHICCA, ATTORNEY, OFFICE OF THE GENERAL COUNSEL

Mr. SMITH. Mr. Chairman and members of the subcommittee, we are pleased to be here today to offer our comments on H.R. 10446, a bill to permit the use of statistical sampling procedures in the examination of vouchers.

Generally, the purpose of the bill is to authorize the heads of Federal departments and agencies and the Commissioners of the District of Columbia to prescribe the use of statistical sampling procedures in the precertification or prepayment examination of disbursement vouchers by certifying or disbursing officers in their departments or agencies whenever it is determined that the accounting system and related internal controls are adequate to protect the Government and that economies will result from the adoption of such procedures.

The use of statistical sampling procedures in the precertification or prepayment examination of disbursement vouchers has been under consideration for some time. Several departments (two in fact) have made a study of the advantages to be gained by such procedure.

Under date of December 19, 1962, the Secretary of Agriculture requested the consideration and approval of the Comptroller General of a proposal to adopt such procedures in his Department. By decision of July 9, 1963, B-150512, we held that under existing law we could not sanction the use of a statistical sampling plan for the examination of vouchers prior to and as preparation for certification. The language of H.R. 10446 was developed to overcome that decision.

The bill authorizes the head of a Government department or agency to prescribe the use of sampling procedures whenever he determines economies would result therefrom. If the bill is enacted, the General Accounting Office would incorporate in its manual for guidance of Federal agencies, a section prescribing the principles, standards, and related requirements for statistical sampling procedures. Our staff has begun the development of such principles, standards, and related requirements and I have with me for the subcommittee's information and inclusion in the record, if desired, a tentative draft of our proposed minimum requirements. That is attached to my statement.

We have no basis on which to make an estimate of the potential savings that Government departments and agencies may realize under the procedures authorized by the bill. However, it would appear from the studies made by the Departments of Agriculture and Health, Education, and Welfare that the adoption of adequate and effective statistical sampling procedures should result in a reduction in the cost of the voucher examination functions without losing the deterrent effect of examining every voucher. Hence, we believe that the enactment of a bill authorizing the use of adequate and effective statistical sampling procedures in the precertification or prepayment examination of disbursement vouchers would be in the Government's best interest.

We have one recommendation concerning the bill. As now worded, even though section (b) clearly provides that the payee, beneficiary, or recipient of any illegal, improper, or incorrect payment continues to be liable therefor, and that the certifying or disbursing officer involved, as well as the administrative agency concerned, has a continuing responsibility to pursue collection action against said payee, etc., section (a) would appear to require the relief of any officer who comes within its provisions of all responsibility for the payment before such collection action is taken or, indeed, even if such action is never taken. This is contrary to the principles established by the existing Disbursing Officers' Relief Act (sec. 1 of the act of Aug. 11, 1955, ch. 803, 69 Stat. 687, 31 U.S.C. 82a-2), which specifically provides that—

relief may be denied in any case in which the Comptroller General or his designee determines that the department, agency, or independent establishment concerned has not diligently pursued collection action in accordance with procedures prescribed by the Comptroller General.

Likewise, the existing Certifying Officers' Relief Act (sec. 2 of the act of Dec. 29, 1941, ch. 641, 55 Stat. 875, 31 U.S.C. 82c) gives the Comptroller General sufficient discretion in granting relief thereunder to permit the withholding of relief where collection action is

not diligently pursued. We perceive no cogent reason why relief under the present bill should be granted regardless of failure to take diligent collection action. Moreover, we believe the authority to withhold relief pending the undertaking of diligent collection action constitutes a salutary inducement to the officers and agencies involved to undertake such action promptly.

Therefore, we recommend that the bill be amended to condition the relief from liability granted thereby upon the diligent pursuit of collection action. This may be accomplished by changing the period at the end of section (a) of the bill to a comma, and adding the following:

Provided, That such officer and his department or agency have diligently pursued collection action to recover the illegal, improper, or incorrect payment in accordance with procedures prescribed by the Comptroller General.

This language, like that of the cited relief statutes, does not require actual successful collection prior to relief from liability. We recognize that, in some instances, collection may be difficult or impossible. All that is required in order to qualify for relief from liability (if the payment in question otherwise falls within the purview of the bill), is that the officer involved and his department or agency have actually and in good faith diligently pursued collection action in accordance with existing procedures prescribed by the Comptroller General.

This concludes our statement and we will be pleased to answer any questions that the subcommittee may wish to ask us.

(The draft sec. 4660 follows:)

SECTION 4660—MINIMUM REQUIREMENTS FOR AN ADEQUATE STATISTICAL SAMPLING SYSTEM

4660.10 A sampling plan must be based on sound probability principles and concepts, clearly outlined in written instructions for guidance of personnel.

4660.20 The plan must be predicated on economic and feasibility studies of the situation to which the plan applies and these studies must be sufficiently documented to permit review and evaluation of its characteristics. Sampling procedures should be adopted only when economies can be demonstrated or controls strengthened without adding to costs.

4660.30 Controls must be established to assure adherence to the established plan. Vouchers actually examined should carry evidence of the examination.

4660.40 A monetary limit must be established above which all vouchers will be examined. The limit should be based on the economic and feasibility studies. For transportation vouchers this limit will be \$100. For all other vouchers, the limit should be the voucher amount above which these studies show that recoveries of improper payments disclosed by complete examination of all vouchers exceed the cost of such examination.

4660.50 The plan must be supervised by personnel having adequate knowledge of statistical sampling techniques as applied to auditing and of the essential features of the plan.

4660.60 Recurring reports must be prepared for management presenting the results of the sampling audit. Management should provide a means for analyzing these reports and for correcting the causes of the errors disclosed therein.

4660.70 All records pertaining to the voucher examination system should be readily available for examination by the General Accounting Office and agency internal auditors.

Chairman DAWSON. Mr. Reuss.

Mr. REUSS. Thank you, Mr. Chairman, and thank you, Mr. Smith, for your very able presentation.

I note that the reason we need legislation at all here is because the Comptroller General, as of July 9, 1963, ruled that you had to examine and you could not sample.

Mr. SMITH. That is right.

Mr. REUSS. And in the light of that and as a matter of statutory draftsmanship and on this point Mr. Chicca of the General Accounting Office General Counsel might want to come into this discussion, I am wondering if this bill should not specifically repeal, or, at least, be related to whatever language it is on which your July 9, 1963, decision was bottomed.

Mr. CHICCA. Yes.

Mr. REUSS. Otherwise a future reader of the statute is going to find whatever language caused you to write your July 9, 1963, decision and then maybe 20 volumes on in the United States Code he will find this, and we will all have been departed from the scene and there will be a mess.

Mr. CHICCA. Our 1963 decision was based on the certifying officers' act and applied only to the certifying officers. This bill would technically apply to disbursing officers as well. So we did not connect it with the certifying officers' act.

Mr. REUSS. At this place, let me just note to Mr. Henderson that I would appreciate your conversing on this subject with Mr. Chicca and other people from the General Accounting Office because I would want to be very sure that we are not leaving the certifying officers' section of the law saying to the casual observer something that it does not really say. To paraphrase what I have just said, as of July 9, 1963, you found that a reading of that certifying officers' section forbade sampling. It is not proposed to change that by statute in any way, and I think that we would need, at least, a red flag in that section of the statute saying that things are not what they seem to be.

Mr. CHICCA. There should be a cross-reference.

Mr. REUSS. There should be something that might do it. That is, something like that might do it.

Mr. CHICCA. It applies to disbursing and certifying officers. The statute related only to certifying officers.

Mr. REUSS. True, but we have the rule of the House, for instance, that whenever we report a bill which in any way modifies existing legislation we have to set forth the legislation with various italics and interlineations. I would think that this should be looked into. And we will appreciate your help on that. Maybe a cross-reference in the statute is all that is needed.

The next question I would have, Mr. Smith, is this: I noticed in your proposed General Accounting Office draft requirements, for when statistical samplings may be used, —you set forth a limit of \$100 for transportation vouchers, but for all of the other kinds of vouchers you have no limit. You simply say, "Let us see what it looks like in your agencies."

Mr. SMITH. Yes, sir.

Mr. REUSS. Is that your reading of it?

Mr. SMITH. Yes, sir; that is right.

Mr. REUSS. I want to return to the point that I was raising before as to whether, on the available evidence, \$100 is the proper breaking point. I refer to a document dated June 1963, published by the Department of Health, Education, and Welfare, entitled "Proposed Application of Statistical Sampling Techniques in the Examination of Vouchers." This is the Department of Health, Education, and Welfare report to which you referred earlier this morning?

Mr. SMITH. Yes, sir.

Mr. REUSS. And on page 17 of their recommendations they say that:

The study group recommends for the Department of Health, Education, and Welfare a voucher examination plan involving the following three elements:

1. A 100-percent prepayment examination of all vouchers \$100 and over.

Mr. SMITH. Yes, sir.

Mr. REUSS. Now, the only other study made anywhere on the face of the globe, so far as I know, is in the Department of Agriculture.

Mr. SMITH. Yes, sir.

Mr. REUSS. And I am told that the Department of Agriculture has not really written a report and has not put anything in writing on this.

Did they do it orally?

Mr. SMITH. No, sir.

Mr. REUSS. First, I ask did they put anything in writing, did they?

Mr. SMITH. Yes, sir; they have a report which was not very widely circulated, but they did have a report on their study.

Mr. REUSS. I do not think that the staff has one of those.

Mr. SMITH. I do not believe they do.

Mr. REUSS. I would like to have you say whatever they had to say, if anything, on where the breaking point was—maybe you would be good enough to tell us.

Mr. SMITH. Their breaking point was right around this point that Health, Education, and Welfare found.

Mr. REUSS. \$100?

Mr. SMITH. Their breaking point was \$200.

Mr. REUSS. \$200?

Mr. SMITH. Yes, between \$100 and \$200.

Mr. REUSS. How did they work that; was it "take your pick"?

Mr. SMITH. No, sir. I mean, they did not make as refined a study that Health, Education, and Welfare did.

Mr. REUSS. Somewhere between \$100 and \$200 there ought to be a breaking point, they said?

Mr. SMITH. Yes.

Mr. REUSS. I then put it to you that 100 percent of the available studies, which are not inconsequential, seem to indicate that there ought to be a breaking point at \$100 or possibly up to \$200 and I am wondering whether, since the existing law says that you have got to examine every voucher and, therefore, we are talking about liberalizing that which exists, I am wondering if Congress ought to put in a dollar limitation or, at least, make it clear that it expects the Comptroller General or somebody to put in a dollar limitation; otherwise Congress would have seemingly indicated that it would be completely without a statistical sampling for vouchers over \$5,000, even when there is serious error there.

Mr. SMITH. Well, sir, the draft of the principles that you are looking at is the result of 2 or 3 weeks' work—it went through quite a few changes. As originally written it did have a monetary limit on all vouchers. By discussions in the office and, particularly, with our transportation people who were responsible for the \$100 limitation, by the way, we decided that there should be some leeway for the agencies to decide where this breakover point of savings versus cost occurred. We would give serious consideration to putting a mone-

tary limit in there of an amount that the committee might decide to be reasonable, based on the information that it has before it.

The General Accounting Office in writing these principles and standards has several authorities. What has been quoted is our authority to prescribe principles and standards for accounting and to approve accounting systems. We also have the problem of determining the basis on which we will grant relief under the terms of the bill. H.R. 10446 is pretty broad in that it requires the system to be adequate. We must be the judge of whether the sampling procedures of the agency are adequate.

The main police action that we can exert is not the approval of the accounting system but the grounds on which we decide we can grant relief. That is the thing that the certifying officers have always been concerned about. And the reason that the certifying officers, generally, insist on making a 100-percent examination is that if relief is asked for something that they have accidentally or carelessly let go through, they still have the argument that they did have a system under which they examined all vouchers.

Mr. REUSS. As to the General Accounting Office—

Mr. SMITH. People make mistakes. You have to admit that much. Everybody makes mistakes.

Mr. REUSS. I am concerned that in the draft of this legislation it lets the head of the agency use this sampling procedure without any limitation at all and here I am quoting: "Whenever the head of that agency determines that economies will result therefrom."

Mr. SMITH. Yes, sir.

Mr. REUSS. Well, that would enable the head of the agency to exempt matters from examination of vouchers without any limitation on the amount, because overall if you add in all the \$100 material it would result in an economy just as HEW's overall study resulted in an overall economy. When you separate the amounts you realize that those over \$100 do not really contribute to the economy.

Mr. SMITH. Well, the amounts over \$100 actually would have added to the cost because the errors that would have escaped and gotten through were more than the savings.

Mr. REUSS. But still, taking the total of under \$100 and over \$100, HEW, in the report we have before us, could have saved money by completely eliminating overall examination of vouchers and doing it on a sampling basis.

Mr. SMITH. They might have saved a little money in the examination, but they would have lost otherwise.

Mr. REUSS. I am talking about the language of this bill. In the HEW study they found \$85,000 would have been erroneously paid and they said that their annual savings would be about \$270,000. I do not know that it is fair to compare those figures; at least, \$85,000 was only a 1-month period.

Mr. SMITH. If you will look on page 12 in their report you will see the amount recovered compared with the cost of making the examinations—you will notice that right around \$100 is the point where the amount of recovery is just a trifle under the amount of the cost and then the minute you get over \$100, \$200 and up, the amount of recovery exceeds the cost; in the \$200 to \$500 range by 2 to 1, and at \$500 and over by about 13 to 1.

Mr. ROSENTHAL. Will you yield?

Mr. REUSS. Yes.

Mr. ROSENTHAL. I think Mr. Reuss was coming to the point that I think most of us might reach and maybe we ought to put the \$100 limitation in the bill itself. I think that the objection raised before to give the administrator leeway is such that I think that the Congress, the House particularly, might feel more agreeable to the bill if they knew that under no circumstances could an agency exclude above the \$100 limitation. Is that the point?

Mr. REUSS. Yes, sir. I would be willing to defer to the General Accounting Office on what they thought the breaking point should be, but on the available evidence it looks like \$100. If you need more, we do not want to pass a bill that does not really do the job but I think that on this we would like an expression from the General Accounting Office and anybody else who is interested, on whether there really should not be a breaking point.

Mr. SMITH. The only information that we have is what you have before you, with the addition of this study that the Department of Agriculture made. And I said that was very close to the Department of Health, Education, and Welfare's study or their findings. And the economies have certainly been shown to be contained in the area below \$100 in both cases. And if the committee thinks that it is the better part of wisdom to put in this limit, certainly the General Accounting Office would have no objection.

Mr. REUSS. The committee does not want to hamstring the General Accounting Office or anybody else. It might be possible to devise language which is not present in the existing draft of the bill which simply says that the area in which the total examination may be dispensed with, and sampling used, shall apply only up to vouchers of a dollar point in a given category where the General Accounting Office has certified that there is a net savings. I think that if you did that it might meet the objections.

Another question that I would have, I do not find anywhere in this bill any reference to the General Accounting Office; indeed, it says that the head of any department or agency of the Government may use the sampling procedure. Apparently, as this bill is drawn, the head of an agency could go right ahead, even if the General Accounting Office was saying no, this is going too far in sampling.

Why not put the General Accounting Office in as an OK'ing authority for a particular agency? That is what you intend to do, in fact, in getting out the draft regulations, so why should not the law require that you do that?

Mr. SMITH. Well, let us say that the omission of the General Accounting Office from this bill was done for our purpose. If adopted by the agencies, there might be 100 or more agencies using statistical sampling. We do not know how many. We did not want to be faced with the problem of having to review in detail and to approve 100 or more plans of this kind.

The whole thrust of this is on the head of the agency. The head of the agency has to protect his certifying officer and in protecting his certifying officer he has to establish an adequate system based on feasibility studies. Under a request for relief from him to us for action, we always examine the system under which the certifying

officer operated to see whether it was reasonable or not. Here is the time that we would get in, not before that time. We were just trying to avoid a flood of requests from many agencies coming in at one time, asking for our examination and approval of their system before they started to operate. We prefer to take them one at a time as they come along.

Mr. REUSS. I think that is a responsive answer on that. I think that we should, in our report on this bill, if we pass it out, spell out rather clearly that though the act does not say anything about the General Accounting Office in words, it is anticipated that the General Accounting Office will exercise ex post facto supervisory authority over this, and any agency which comes through with a statistical sampling plan which is not in accord with the General Accounting Office's standards will learn on a relief case that it does not comply.

Mr. SMITH. Yes, sir; that is right. We view it in this fashion, that the legislative history is fairly complete, both in the statement of the purposes of the bill when it was submitted by the administration, and the report on the bill from our Office and others, that the General Accounting Office intends to play a heavy role in this plan.

Mr. ANDERSON. If you will yield, they would not be exercising ex post facto supervisory authority. I would hope that their role would not be that. Then I do not think that we would be getting at the problem that worries you and the problem that worries me to some extent, that the people would go ahead in the agencies indiscriminately and install these sampling plans without recourse or without consulting the standards and criteria.

Mr. REUSS. I think at this point it would be like having a Nuremberg trial of the agencies afterward, and that may not be the best way to do it.

Mr. SMITH. We intend, in addition to this summary of minimum requirements, to include in our manual on this subject quite an extensive explanation—and we have already submitted a draft of that to the subcommittee staff—of what a statistical sampling plan should encompass. That is, the technical features of the plan. We did not include it in these minimum standards because this is a summary of quite a few pages of statistician's terminology and a lot of words that requires one to know something about the subject to understand, but we intend to lay down rather specific basic guidelines and principles to the agencies.

Mr. REUSS. I think, perhaps, you have a very good point, that it would be inadvisable for the Congress to require that the General Accounting Office affirmatively certify the plans of all of these 100 agencies before they can start sampling. However, would it not be in order for the bill which we enact to require that the General Accounting Office promptly formulate general standards for the guidance of the agencies and to publish them and to make them available so that these agencies can know what is in your minds beforehand, to avoid the ex post facto effect which would be unfortunate?

Mr. SMITH. That would give us no problem because, as I say, we have it well underway.

Mr. REUSS. I think then, Mr. Henderson, that we should have some language on that point.

As to the amendment which you suggested in your prepared statement, that seems to me a worthwhile amendment in requiring reasonable, diligent action to collect on the part of the certifying officer, to shake off the obligation on him. It is in the present law; is it?

Mr. SMITH. It is in the present law and we just did not want to lose it.

Mr. REUSS. I think something should be provided to show that that is continued.

Thank you.

Chairman DAWSON. Mr. Anderson.

Mr. ANDERSON. No questions.

Chairman DAWSON. Mr. Rosenthal.

Mr. ROSENTHAL. I have just one question. If this turns out to be a good a thing as it looks like, there might be savings and should we not then ride herd on those agencies that failed to fall in line?

Mr. SMITH. That might be worthwhile. Every agency has to decide whether it would be economical to use it. For example, in the General Accounting Office, which is a rather small organization, we could not fire anybody if we went to statistical sampling. It would not save us any money.

Mr. ROSENTHAL. I assume that your operation is different from others?

Mr. SMITH. No, it is smaller. It is rather small.

Mr. ROSENTHAL. Take a large agency, let us assume, apparently that it looks very, very profitable—

Mr. SMITH. In a large agency where they have more or less central accounting and disbursing it would save a lot of money. In a large agency where this is done in small offices scattered around, with one person doing several things, including this examination, it might not save any money, because you cannot fire half a person.

Mr. ROSENTHAL. I am inquiring whether we should oversee the direction of the agency where it is growing and the effort they are making to apply this.

Mr. SMITH. I think that it would be worthwhile.

Mr. REUSS. Would you yield?

Mr. ROSENTHAL. Yes.

Mr. REUSS. I think that the gentleman from New York is making an excellent suggestion. As this bill is drawn, it simply permits the agencies that want to save \$1 million to do it. If it is valid to do it at all, I should think that we ought to practically direct that within a reasonable time the agencies either adopt this more relaxed and economical method or tell us why they cannot.

Mr. SMITH. Mr. Reuss, in connection with our audits under our responsibility to settle the accounts of the accountable officers during that part of our work, the examination of what we call the administrative system under which they operate, we would, certainly, look into this feature of the operation.

Mr. REUSS. I see. In our report we might want to have some sort of a record for the General Accounting Office to keep us informed on who is conforming.

Thank you.

Chairman DAWSON. Do you have any questions, Mr. Lanigan?

Mr. LANIGAN. Two questions.

In going into the accounting of an accountable officer, an accountable officer has followed a system prescribed by the head of the agency, which he is bound to do, could you deny relief because he followed the system that his superior had prescribed? Would you deny him such relief from personal liability?

Mr. SMITH. I am going to let our attorney, who is more familiar with this feature, answer that.

Mr. CHICCA. If we found that the system is not adequate I think that we can and do still hold them responsible. He is in sort of a bind, I admit, but the law places the responsibility on him.

Mr. LANIGAN. That is a sort of a booby trap, then, on the accountable officer—he cannot change the system, necessarily, as prescribed by the head of the department.

Mr. CHICCA. He has the right to argue, at least, that he thinks it is improper. Of course, if he agrees with it, then there is nothing else to be done. He could complain that he thinks the system is not proper because he always has the authority to come to us and ask for a decision on specific payments and could bring up this subject in that way.

Mr. LANIGAN. Have you ever found an agency system inadequate and for that reason held the accountable officer liable—has it ever occurred?

Mr. CHICCA. I think so; yes, sir. I think that Mr. Smith can answer that.

Mr. SMITH. It was referred to earlier in this hearing this morning about the many cases that come up for special relief; for example, for military people. At times these special relief cases arise because many people, or groups of people, are overpaid on the basis of decisions or systems established in the agency that the accountable officer followed. We come in later on and find that maybe 100 or several thousand people have been overpaid because of following the system or the decisions of the agency and we take an exception and disallow it. That goes right against the accountable officer. That is why these relief actions come in.

Mr. LANIGAN. These relief actions are for relief to the accountable officer?

Mr. SMITH. Some of them, and some are to relieve the payees, the poor people that got paid under a system that resulted in their being overpaid and nobody knew about it until we came in.

Mr. ANDERSON. I cannot remember one that was designed to relieve the accountable officer—they all seemed to relieve the payee. Some may have been for the accountable officer, but I have never seen them.

Mr. SMITH. The exception is always taken against the accountable officer in the first place and he is, under the present law, required to take action to recover the overpayment. Then the relief is for the payees so that they do not have to pay the money back to the accountable officer.

Mr. LANIGAN. The bill itself does not even say that the Comptroller General shall prescribe the principles and procedures to be followed in adopting this statistical sampling system. Last week under the Budget and Accounting Act the Comptroller General's report pointed out that only 41 out of 120 agencies of the Government are following the General Accounting Office's prescribed accounting systems, even though the law has been in effect for 14 years. Do you think that you

would have any more power with respect to putting in your standards with respect to H.R. 10446 than you would under the Budget and Accounting Act?

Mr. SMITH. Yes, sir. I think very much so, because the lever that we have in the bill under consideration is the fact that if they do not have an adequate system, then we do not have to grant relief. There is the lever. Under most accounting systems, there are few features that affect the actions of the accountable officer, so far as relief is concerned. Under this one it directly affects the relief status of the accountable officer. I do not know too many certifying or disbursing officers, but the ones that I have had experience with were very cautious and very careful because they were personally responsible and they wanted to be sure that the system they operated under was such that we would grant relief if the question ever arose.

Mr. LANIGAN. That is all.

Mr. HENDERSON. Mr. Smith, the basis for this program is pretty much the Department of Health, Education, and Welfare studies. The bill gives discretion to the head of the agency as to when he feels the economies will result.

Mr. SMITH. Yes, sir.

Mr. HENDERSON. If the procedure is put into effect——

Mr. SMITH. Yes, sir.

Mr. HENDERSON (continuing). Should we require that a formal study be made by each agency along the lines of the Department of Health, Education, and Welfare study which almost proves that economies will result, rather than just leave it to the feeling or the discretion of the head of the department?

Mr. SMITH. Item 2 of our proposed minimum requirements says that the plan must be predicated on economic and feasibility studies of the situation to which the plan applies, and these studies must be sufficiently documented to permit the General Accounting Office an evaluation of its characteristics. Sampling procedures should be adopted only when economies can be demonstrated or controls strengthened without adding to the cost.

Mr. HENDERSON. And being familiar with the HEW report as you are, do you contemplate by that language that a study similar to the Department of Health, Education, and Welfare should be made?

Mr. SMITH. I do not know if it should be identical, but similar, yes, sir.

Mr. HENDERSON. Do you think that the bill should be put on an experimental basis, rather than be made permanent legislation right away?

Mr. SMITH. The one problem with an experimental period would be that some agencies that reasonably could use this system would be reluctant to do so because of the personnel problems involved. If you put this into operation and were able to reduce the work force, they might have problems going back to the 100-percent examination and building the work force up again. That is the only problem that I can see with it.

Mr. HENDERSON. Thank you. That is all.

Chairman DAWSON. Are there any other questions?

Mr. HENDERSON. Yes. One other point. Mr. Armstrong was asked a question about overall Government-wide savings. Can you make

any estimate or projection based on the Departments of Health, Education, and Welfare and Agriculture studies of possible overall Government-wide savings?

Mr. SMITH. No, sir. The only conclusion that we could come to is that these two large agencies were able to demonstrate possible savings in their agencies. It is reasonable to assume that in other agencies of comparable size, even in smaller ones, there should be some savings, but it would be impossible to put a dollar figure on it. I would not want to do that.

Mr. HENDERSON. That is all. Thank you.

Chairman DAWSON. Thank you.

Mr. SMITH. Thank you.

Chairman DAWSON. Our next witness will be Sidney S. Sokol. Mr. Sokol is Assistant Commissioner of Accounts of the Treasury Department.

STATEMENT OF SIDNEY S. SOKOL, ASSISTANT COMMISSIONER, BUREAU OF ACCOUNTS, DEPARTMENT OF THE TREASURY

Mr. SOKOL. Mr. Chairman and members of the subcommittee, it is a privilege to be here today to present the views of the Treasury Department on H.R. 10446, a bill that would remove existing legal obstacles to permitting the use of statistical sampling procedures in the examination of vouchers.

As the Director of the Bureau of the Budget indicated in transmitting the proposed legislation, it is a product of the Government-wide joint program to improve financial management practices. The central fiscal agencies—namely, the General Accounting Office, Bureau of the Budget and Treasury Department—and the operating agencies, who are our partners in the joint program, worked together in pinpointing the desirability of the proposal and in drafting the bill. It is commended for your favorable action with joint program unanimity and with special appreciation for the comprehensive studies made by the Department of Health, Education, and Welfare, and the Department of Agriculture.

Agency heads must constantly make decisions on the application of available resources in terms of program priorities. It seems to us to make good sense to permit any agency head to use a statistical sampling system for the examination of vouchers when he has determined that the potential financial return from examining each and every voucher of a given type or a given dollar range is not worth the cost of examination. What is advocated, therefore, is a selective approach, with a concentration of resources on vouchers that provide payoff, thereby saving manpower and money without losing the deterrent advantages of examining every voucher beyond the normal voucher preparation requirements.

We do not envision uniformity of application throughout the Federal Government. In some places, the circumstances (such as small volume) would undoubtedly be unfavorable for statistical sampling. In other places, the circumstances might warrant different ground rules in applying the statistical sampling technique. In any event, the authority would be exercised within principles and standards prescribed by the Comptroller General. Also, independent determina-

tions as to effectiveness of application among the agencies would be available through the site audits performed by the General Accounting Office.

The Treasury Department is glad to join in endorsing the proposed legislation.

This concludes my brief prepared statement, Mr. Chairman.

Chairman DAWSON. Mr. Rosenthal, any questions?

Mr. ROSENTHAL. I have no questions.

Chairman DAWSON. Mr. Anderson.

Mr. ANDERSON. I do not have any questions.

Chairman DAWSON. Mr. Lanigan.

Mr. LANIGAN. No questions.

Chairman DAWSON. Mr. Henderson.

Mr. HENDERSON. Do you feel that this should be on an experimental basis, Mr. Sokol?

Mr. SOKOL. I do not think so. I believe there is enough good behind the plan in a workmanlike fashion and a realistic fashion to go right ahead with it.

Mr. HENDERSON. And like the other witnesses, would you be able to project overall Government-wide savings that might result from this?

Mr. SOKOL. Not under the circumstances that do not envision any uniformity.

Mr. HENDERSON. That is all.

Chairman DAWSON. Thank you very much, sir.

Our next witness is Karney A. Brasfield, chairman of the Committee on Federal Budgeting and Accounting and he is accompanied by Kenneth W. Stringer, chairman of the Committee on Statistical Sampling, from the American Institute of Certified Public Accountants.

We want you to give us who do not know anything about all of this accounting business valuable expert knowledge.

STATEMENT OF KARNEY A. BRASFIELD, CHAIRMAN, COMMITTEE ON FEDERAL BUDGETING AND ACCOUNTING; ACCCOMPANIED BY KENNETH W. STRINGER, CHAIRMAN, COMMITTEE ON STATISTICAL SAMPLING, AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Mr. BRASFIELD. Mr. Chairman and members of the committee, I am happy to appear as a witness and if we might, I would like to suggest that my associate, Mr. Stringer, who is chairman of the Committee on Statistical Sampling of the American Institute of Certified Public Accountants lead off with a discussion and perhaps in the light of some of the testimony of other witnesses he could be most helpful to you.

Chairman DAWSON. Very well. We shall be very glad to hear from you, Mr. Stringer.

Mr. STRINGER. I have a brief prepared statement which unfortunately I did not have time to have duplicated, but I could do so later if you so desire. And following that I will be glad to answer any questions that I can.

I am a certified public accountant in New York and in several other States and am a partner in the executive offices of the firm of Haskins

& Sells, certified public accountants in New York City. My responsibilities relate to technical standards and procedures within that firm and they have included the development and implementation of a specially designed statistical sampling plan for use in our audit practice. This plan was developed in collaboration with Professor Stephan, of Princeton University, who will also appear this morning. In addition, I am chairman of the American Institute of Certified Public Accountants' Committee on Statistical Sampling.

I appear before you today, however, in an individual capacity only. The views that I will express regarding H.R. 10446 do not necessarily represent those of my firm or of the American Institute of Certified Public Accountants. Although my responsibilities have resulted in fairly extensive studies of and familiarity with statistical sampling, I do not appear as a statistician but rather as an independent auditor.

I recommend enactment of H.R. 10446 because I believe that statistical sampling procedures offer a reliable means of fiscal control which should be available for use by any department or agency of the Government.

In this connection, however, I would like to point out to the committee that there is no single identifiable set of "statistical sampling procedure" as used in H.R. 10446, but that this expression embraces a range of possibilities for designing, selecting, evaluating samples.

The best choice between these possibilities depends upon the objective of the sampling plan and on other pertinent circumstances in the particular cases. For the purpose of sampling disbursement vouchers as contemplated in this bill I believe the objective should be to achieve the best possible balance between (a) the savings in the cost of examining the vouchers and (b) the reasonably expected losses on improper vouchers not examined.

I believe the administrative determination, "that economies will result" from the use of sampling as referred to on line 5 of the bill should take both of these factors into account on this basis and that this should be made clear in the bill itself or in the legislative record. Because of the range of possible sampling procedures and of pertinent circumstances likely to prevail in the various departments and agencies reasonable flexibility in the sampling procedures to be prescribed is desirable and this seems to be permitted by the bill. However, I believe the same range of possibilities creates the need for some degree of uniformity and general approach to the sampling of disbursement vouchers.

For this reason I suggest that the Comptroller General should be required to prescribe general standards and principles to be followed by the departments and agencies in developing and applying their respective sampling procedures and that such application should be reviewed periodically by the Comptroller General.

On behalf of the American Institute of Certified Public Accountants I want to express its appreciation for the invitation for representatives to appear before your committee.

I have just concluded my prepared statement. Mr. Brasfield and I will be glad to deal with any questions that we can.

Chairman DAWSON. Mr. Anderson.

Mr. ANDERSON. You do not have any particular criticism, then, as I understand your testimony, Mr. Stringer, of the bill as written, in

that it does refer in some very general terms, to statistical sampling, which your statement indicates can embrace an awful lot of things.

Mr. STRINGER. My comments are not meant to indicate criticism of the draftsmanship but simply to point out, so that the committee understands that there is a wide range of possibilities here and that this range is desirable because of the need for flexibility between various agencies. I think this is important and it is relevant to the discussion that you have had about establishing what I would call cutoff points.

Mr. ANDERSON. On that point what do you think of the idea of establishing it by actually including a figure in the legislation—do you think that this ought to be a matter of administrative flexibility?

Mr. STRINGER. Ideally I would think that it should be a matter of administrative flexibility. From the standpoint of the question of whether certain limits might be necessary or desirable for the purpose of getting the legislation enacted, of course, that is outside of my field. But it would appear to me that studies in only two departments would be inadequate evidence to reach a general conclusion on where the cutoff should be. The experience that we have had with sampling has indicated—we, of course, in our own work use these cutoff points in examining vouchers, we have found that they vary considerably from one client to another and, hence, I would think that the most desirable thing would be to provide for flexibility, so long as it is made clear that the administrative determination that "economies will result" in effect refers to net economies, not just gross savings, in reducing the cost of examining the vouchers. Basically there is some optimum point on the curve as to where is the best place to make the cutoff point.

Mr. ANDERSON. I take it from the testimony that statistical sampling is, of course, very widely used in American business and industry, or is it restricted largely to those that are extremely large companies and have a real volume of vouchers to handle?

Mr. STRINGER. I would hesitate to say that it is used extremely widely. Relatively speaking, it is comparatively a new technique. Statistical sampling had developed in other fields much earlier than it has in accounting and auditing. By and large I would say that it has only been since the early fifties that interest has been growing in accounting and auditing. Our institute committee was established somewhere along in 1955 or 1956 so that I think it is growing and interest in it is increasing. It has proven successful but I think that it is still fair to say that more people are not using it than are.

In this respect I think the Government agencies have been among the leaders, in a sense they have been ahead of business in this respect and I think desirably so.

Mr. ANDERSON. That is all. Thank you.

Chairman DAWSON. Mr. Rosenthal.

Mr. ROSENTHAL. Thank you, Mr. Chairman. I would like to commend both of you gentlemen for taking time from your normal pursuits to come down here. I think you are rendering a real public service and showing a keen interest in government and I am very, very pleased you have come here.

The only question I have is, Do you have any answers to the questions that Mr. Reuss raised at the beginning of whether we should go to a sampling or to a statistical sampling?

Mr. STRINGER. I think that we should call it statistical sampling. There is a great deal of difference. There is a large body of technical literature that deals with the theory of statistical sampling but basically, the difference, as I would see it—and Professor Stephan will follow me and he can elaborate on this much better than I—basically, the difference between just samplings as such and statistical sampling is that the latter makes use of mathematical concepts of probabilities to control the risks that are involved. Obviously, any time you depart from a 100-percent examination you incur some degree of risk. And the problem is to control the risk, so that the net economies result. So you establish limits on the risks that are reasonable in relation to the costs that you are saving on the other side of the equation and statistical sampling is the only way in which this risk can be measured and controlled. With just unstatistical and nonstatistical or unscientific sampling there is simply no way to measure your results. To be specific, I think it is extremely desirable to keep the word "statistical" in the legislation. Otherwise, you throw it completely wide open.

Mr. ROSENTHAL. Thank you very much. I have no further questions.

Chairman DAWSON. Mr. Lanigan.

Mr. LANIGAN. No questions.

Chairman DAWSON. Mr. Henderson.

Mr. HENDERSON. No questions.

Mr. BRASFIELD. I might add a little different facet to my associate's testimony, having had considerable experience in Government. As a matter of fact, it was my pleasure to be before this committee rather frequently some 10 years ago.

I would emphasize the point that Mr. Smith made as to the desirability of the agencies looking to the General Accounting Office for guidance through its principles and standards.

I think, perhaps, the problem on this may be to get the agencies to be willing to move forward as rapidly as they might. There are many deterrents. And this question of individual responsibility of the certifying officer. So, perhaps, the tendency will be toward not doing something, rather than doing something.

I would suggest the possibility, if it is the committee's wisdom, that the principles and standards prescribed by the General Accounting Office are perhaps the best way to introduce the needed viability into this so that you do not hamstring the development of this tool by too restrictive legislation. The General Accounting Office can, as experience matures and ripens, adjust its principles and standards on the basis of additional experience and this is sometimes difficult to accomplish by legislative action; that is, to come back and to redo it.

You have the same problem with the question of making the legislation temporary. I do not think that you really need to do this. Again, I am expressing an opinion as an individual, not for the American Institute.

Chairman DAWSON. Mr. Anderson?

Mr. ANDERSON. No questions.

Chairman DAWSON. Mr. Rosenthal?

Mr. ROSENTHAL. No questions. Thank you.

Chairman DAWSON. Mr. Lanigan?

Mr. LANIGAN. No questions.

Chairman DAWSON. Mr. Henderson?

Mr. HENDERSON. No questions.

Chairman DAWSON. Thank you very much, gentlemen. Everybody seems to be satisfied with your statement. There are no questions.

Mr. ROSENTHAL. Is there some way by which we could include this in the record? I assume that it would be too expensive to put the whole document into the record, but is there some way that we could put in tables V, VI, and VII—could we do that?

Chairman DAWSON. Yes.

Mr. ROSENTHAL. I think that it would help the presentation.
(The tables referred to follow:)

PROPOSED APPLICATION OF STATISTICAL SAMPLING TECHNIQUES IN THE EXAMINATION OF VOUCHERS, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE, JUNE 1963

TABLE V—*Classification of money errors discovered during study period*

<i>Nature of errors</i>	<i>Amount</i>
1. Incorrect computations	\$10,387
2. Unapproved or unauthorized items	8,349
3. Inadequate documentation or explanations	21,163
4. Duplicate billings	19,019
5. Refunds requested	5,824
6. Amounts claimed or deliveries made contrary to authorizations	19,925
7. Other errors (voucher not signed, etc.)	338
All errors	85,005

TABLE VI—*Error amounts distributed by size and type of voucher*

<i>Size of voucher</i>	<i>Total</i>	<i>Travel</i>	<i>Transportation</i>	<i>Government</i>	<i>Commercial</i>
Total	\$85,005	\$12,372	\$10,480	\$28,769	\$33,384
0 to \$24.99	941	286	240	36	379
\$25 to \$49.99	1,179	396	438	—	345
\$50 to \$99.99	3,481	1,382	921	46	1,132
\$100 to \$199.99	5,772	2,366	1,585	—	1,821
\$200 to \$499.99	10,584	3,675	2,422	634	3,853
\$500 and over	63,048	4,267	4,874	28,053	25,854

TABLE VII—*Comparison of amounts recovered and examination costs during study*

<i>Size of voucher</i>	<i>Amounts recovered</i>	<i>Voucher examination costs</i>		
		<i>Overall average unit cost¹</i>	<i>Average unit cost by type²</i>	<i>Unit cost by type and amount³</i>
0 to \$24.99	\$941	\$16,884	\$15,589	\$13,573
\$25 to \$49.99	1,179	8,395	8,712	7,608
\$50 to \$99.99	3,481	8,633	9,945	8,700
\$100 to \$199.99	5,772	6,936	7,867	9,828
\$200 to \$499.99	10,584	5,884	5,914	7,388
\$500 and over	63,048	5,055	3,762	4,689
All vouchers	85,005	51,789	51,789	51,789

¹ Costs in this column were computed using the overall average cost of examination found in the departmentwide study.

² Costs in this column were computed using the average unit costs by type of voucher derived from the data supplied by the experience of the accounting unit at SSA-Woodlawn.

³ Costs in this column were computed using the average unit costs by type modified by the assumption that examining costs are 25-percent higher for vouchers over \$100 than of those under \$100.

Chairman DAWSON. Our next witness is Prof. Frederick F. Stephan, chairman of the Committee on Statistics and Accounting of the American Statistical Association.

**STATEMENT OF FREDERICK F. STEPHAN, CHAIRMAN, COMMITTEE
ON STATISTICS AND ACCOUNTING, AMERICAN STATISTICAL
ASSOCIATION**

Mr. STEPHAN. Mr. Chairman and members of the subcommittee, I appreciate very much the invitation that was extended to the American Statistical Association to have someone speak from the standpoint of the statistician.

I have a brief prepared statement that I would like to read and then I stand ready to answer such questions as you may wish to ask me.

My name is Frederick F. Stephan and I am professor of social statistics at Princeton University. Previously I have been secretary-treasurer of the American Statistical Association, a member of the central statistical board; Assistant Director of the Bureau of Research and Statistics in the War Production Board; and also statistical consultant to many agencies of the Federal Government and private business concerns.

I am presently a member of the Advisory Committee to the Office of Statistical Standards of the Bureau of the Budget, a member of the board of directors of the American Statistical Association; and chairman of the Committee on Application of Statistics and Accounting of the American Statistical Association.

Also, I am a consultant to the firm of Haskins & Sells, working in association with Mr. Kenneth W. Stringer, who has just testified, in developing statistical sampling procedures that strongly support and are wholly compatible with generally accepted accounting and auditing principles.

I present this statement from the background of the experience I have just sketched, but solely as an individual expression of professional opinion, not as a representative of any agency or organization. However, I do not know of any professional statistician whose views run counter to those I will express, and I would expect general agreement with them among leading statisticians.

It is my considered opinion that the provisions of H.R. 10446 will benefit the Federal Government; that the permission provided therein, if properly exercised, will not subject the Federal Government or any agency thereof to risks or losses except such minor ones that are more than fully offset by the economies and savings that will be gained from the use of statistical sampling.

Similar benefits have been obtained from the use of statistical sampling in private business and in government for a variety of inspection and control functions.

I would like to point out that properly designed procedures of inspection or examination will require examination of all of the vouchers or other items when, under the circumstances, this would be more beneficial than a smaller sample. In my opinion, the use of statistical sampling should include examination of all of the larger amounts and more important vouchers and some examination at an appropriately lower rate of even the smallest and least important ones.

Assuming that this is done, the effectiveness of the procedure should be entirely satisfactory, with samples of adequate size and fully effec-

tive procedures of examining the vouchers selected, to assure, first, that losses will be sustained only to the extent that it would cost more to recover them than the amount that would be recovered; and second, that the filing of erroneous, false claims will be deterred to the extent that it is now deterred by examination of all disbursement vouchers.

It is common experience that statistical sampling expedites the performance of the examination of items and improves its quality. For these reasons I recommend the passage of H.R. 10446.

Thank you very much for the opportunity to express these views on this bill.

Chairman DAWSON. We thank you very much for coming down here and giving us the benefit of your wide experience.

Mr. Anderson.

Mr. ANDERSON. Is there any way that you can generalize, Professor, on the size of the particular unit or agency where it becomes beneficial to employ the statistical sampling procedures?

Mr. STEPHAN. I would say that as a general principle one ought not even to assume that a small agency cannot use the procedures. I am convinced that in some instances you may not be able to discharge somebody and reduce the staff, but you may be able to gain some of their time—the time of, at least, one person for more important work. Even such a small savings as that, I would think, would be important to get in a general attempt to economize in Government operations.

Mr. ANDERSON. But you still think that the real rationale on which this ought to be based for Government is not so much releasing the time of people for other duties as it is saving money; in other words, using it where it will cost less money to employ the statistical method than it would to examine all vouchers. Is that not the basis on which your rationale is based, that you are employing here?

Mr. STEPHAN. Basically, you gain something—it can either be allocated to doing other work better or to the reduction of the staff and the economies that result from that. It is entirely conceivable in some situations you would not save anything on the cost of examining the vouchers but you would recover more because I am sure that the examination of an individual voucher is not something that can be done in any perfect sense. There is always more work than could be done to discover erroneous claims that even under current practice elude detection.

Mr. ANDERSON. That is all. Thank you.

Chairman DAWSON. Mr. Rosenthal.

Mr. ROSENTHAL. How do you feel about putting a cutoff figure in the legislation as someone has suggested?

Mr. STEPHAN. Well, I think if the cutoff figure is accurately determined this would be useful. It would make the legislation more definite. It is my opinion that the development of a scheme of statistical sampling could proceed on the basis of what experience is available, to begin with, and that cutoff figures should be set relatively low in the light of that experience until additional experience justifies raising them to a higher level.

It is, also, the practice of statistical samplers to use different rates of sampling for items of different magnitude, different amounts. So it is quite conceivable that substantial gains would be had by sampling at one rate under \$25, at a higher rate from \$25 to \$50, at a still higher rate from \$50 to \$100; and if experience demonstrated that

there was a sound basis for making further savings the sampling could be extended above \$100. I would not feel sure that even \$100 is too low. It may be too high. Only experience will tell where the cutoff should be made.

Mr. ROSENTHAL. I have no further questions. Thank you.

Chairman DAWSON. Mr. Lanigan?

Mr. LANIGAN. Would you indicate where in some situations statistical sampling might be more effective than 100-percent sampling?

Mr. STEPHAN. Looking at this practically, this is definitely so. In other fields of sampling we have found that, by reducing the amount of work, we can allot the work to the most capable, competent people for that particular kind of work and get a higher quality of performance. We can accomplish the objectives of the work better by lightening the load that at the present time is so heavily cluttered with small, unimportant tasks to be performed. That has been clearly true in many situations. It has been true very strikingly in the taking of the census. In the 1960 census, as in the 1950 census, great savings have been made and substantial improvement in quality resulted from the use of sampling for the collection of data.

In the case of inspection and examination and control procedures the objectives are a little different. That is one reason why it has been emphasized in previous testimony that the sampling plans should be designed or tailored to the particular situation. However, throughout there are general principles of probability and practical operating procedures that apply in one situation after another. Therefore, the experience of these other attempts to use statistical sampling that turned out to be successful can be, I believe, projected with appropriate caution into the possibilities in the future of applications in the field of examining disbursement vouchers and related auditing procedures.

Mr. LANIGAN. Thank you. I have no further questions.

Chairman DAWSON. Mr. Henderson, do you have any questions?

Mr. HENDERSON. No, thank you.

Chairman DAWSON. Thank you very much, Professor Stephan.

(Mr. Stephan subsequently submitted the following:)

STATEMENT OF FREDERICK F. STEPHAN, CHAIRMAN, COMMITTEE ON STATISTICS AND ACCOUNTING, AMERICAN STATISTICAL ASSOCIATION

Sampling is the familiar practice of taking one or more parts of something and inspecting them to obtain evidence of the quality of the whole lot from which they were taken. To make sure that the information is dependable there are many rules of procedure and devices for taking samples of wheat, cotton, ore, coal, milk, and other materials. If samples are taken carelessly, or with intent to deceive, or with too few specimens to show the quality of the material accurately, then the evidence presented will be biased and misleading.

Statistical sampling is an improvement on previous sampling practice. It uses well-established principles of mathematical probability to determine how accurate the samples will be when they are taken from a given kind of material by a definite method of selecting the specimens. It makes possible the calculation of the number of specimens or size of the samples necessary to provide information of a desired degree of accuracy. It includes various procedures that can be utilized to make the sampling work well and to reduce the costs of inspection. These procedures are set forth in several books on statistical sampling for auditors and accountants as well as in statistical treatises and in the professional journals.

Statistical sampling is based on well-controlled methods of selecting the specimens or items. These methods are generally known as random sampling and

they assure to each specimen or item an equal chance of being selected. In this they resemble the established methods of selecting jurors by lot. Usually it is more efficient to divide the material to be sampled into groups of similar items and then sample each group at a rate appropriate to its qualities and importance. Thus in sampling vouchers, those with the larger amounts would be all selected for examination, those with smaller amounts would be sampled to an appropriate extent as determined from the amounts of the errors they contain and other factors, while those vouchers with still smaller amounts would be sampled to a lesser extent.

It seems clear that so far as is feasible in advance of their examination, vouchers should be classified somewhat as follows:

(1) All vouchers that can be distinguished by their amounts and other features as likely to save more money than it costs to examine them. These should all be examined.

(2) Other kinds of vouchers classified into several classes according to the likely amount of error and probable cost of examining each class. Although these vouchers can be expected to cost more to examine than the errors that will be discovered and corrected thereby, some extent of examination is needed for the effect it will have in deterring carelessness and intentionally false or illegal claims. The rate of sampling and extent of examination for each group should be determined by the results of previous experiences concerning the auditing costs and amounts of error found, as well as by the probable contribution each class makes to the total deterrent effect of the auditing program.

Statistical sampling will be important in (a) assuring that vouchers of different kinds will be subjected to examination to the extent appropriate for each kind, and (b) providing dependable estimates of the amounts of error to be expected from previous experience with each kind of voucher so that the appropriate extent of auditing can be determined for each group.

H.R. 10446 specifies that the procedures of statistical sampling be adequate and effective. This can be accomplished by the cooperative effort of accountants and statisticians expert in these matters.

Chairman DAWSON. Gentlemen, this brings our hearing to a close.

We are very grateful to those who gave up their work and came to us to give us the benefit of their knowledge in this field.

And we will take into consideration your testimony in passing upon the bill. We are very grateful to you for all you have contributed this morning. It has been very, very good. It has been a wonderful experience to have had you here. I would like to ask if there are any questions that you would like to ask on any phase of this hearing, anything that you would like to further expound on to give us the benefit of your experience?

If not, we will stand adjourned.

Mr. HENDERSON. Pardon me one moment, Mr. Chairman.

Mr. Smith, has the amendment that you proposed been approved by the Bureau of the Budget and the Treasury, and are they in accord?

Mr. SMITH. They have copies. I do not know what their reactions have been.

Mr. HENDERSON. Would you gentlemen like to comment now or later?

Mr. ARMSTRONG. We would have no objection to the amendment. We would just question whether it was necessary.

Mr. SOKOL. We have the same feeling, that the amendment tends to clarify the intent we had in mind originally and if it is necessary for clarification there is no objection to it, of course.

Chairman DAWSON. Thank you very much, gentlemen.

We stand adjourned.

(Whereupon, at 12 noon, the subcommittee adjourned.)



LEGISLATIVE HISTORY

Public Law 88-521
H. R. 10446

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INDEX AND SUMMARY OF H. R. 10446

Rep. 16, 1964 Rep. Rosenthal introduced H. R. 10446, which was referred to House Government Operations Committee. Print of bill as introduced.

July 31, 1964 House committee reported H. R. 10446 with amendments. H. Report 1643. Print of bill and report.

Aug. 3, 1964 House passed H. R. 10446 under suspension of rules.

Aug. 4, 1964 H. R. 10446 was referred to Senate Government Operations Committee. Print of bill as referred.

Aug. 13, 1964 Senate committee reported H. R. 10446 without amendment. S. Report 1425. Print of bill and report.

Aug. 14, 1964 Senate passed H. R. 10446 without amendment.

Aug. 30, 1964 Approved: Public Law 88-521.

DIGEST OF PUBLIC LAW 88-521

**STATISTICAL SAMPLING PROCEDURES FOR EXAMINATION
OF VOUCHERS.**

Authorizes the head of any department or agency to prescribe the use of adequate and effective statistical sampling procedures in the examination of disbursement vouchers for amounts of less than \$100 whenever he determines that economies will result from the use of such procedure. Provides that no certifying or disbursing officer acting in good faith and in conformity with such procedures shall be held liable with respect to any certification or payment made by him on a voucher which was not subject to specific examination because of the prescribed statistical sampling procedure, provided that such officer and his department or agency have diligently pursued collection action to recover the illegal, improper, or incorrect payment in accordance with procedures prescribed by the Comptroller General.

88TH CONGRESS
2D SESSION

H. R. 10446

IN THE HOUSE OF REPRESENTATIVES

MARCH 16, 1964

Mr. ROSENTHAL introduced the following bill; which was referred to the Committee on Government Operations

A BILL

To permit the use of statistical sampling procedures in the examination of vouchers.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 (a) That, whenever the head of any department or agency
4 of the Government or the Commissioners of the District of
5 Columbia determines that economies will result therefrom,
6 such agency head or the Commissioners may prescribe the
7 use of adequate and effective statistical sampling procedures
8 in the examination of disbursement vouchers; and no certify-
9 ing or disbursing officer acting in good faith and in con-
10 formity with such procedures shall be held liable with respect
11 to any certification or payment made by him on a voucher

1 which was not subject to specific examination because of the
2 prescribed statistical sampling procedure.

3 (b) Nothing contained in this Act shall affect the
4 liability, or authorize the relief, of any payee, beneficiary, or
5 recipient of any illegal, improper, or incorrect payment, or
6 relieve any certifying or disbursing officer, the head of any
7 department or agency of the Government, the Commis-
8 sioners of the District of Columbia, or the Comptroller Gen-
9 eral of responsibility to pursue collection action against any
10 such payee, beneficiary, or recipient.

88TH CONGRESS
2D SESSION

H. R. 10446

A BILL

To permit the use of statistical sampling procedures in the examination of vouchers.

By Mr. ROSENTHAL

MARCH 16, 1964

Referred to the Committee on Government Operations

PERMITTING THE USE OF STATISTICAL SAMPLING PROCEDURES IN THE EXAMINATION OF VOUCHERS

JULY 31, 1964.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. DAWSON, from the Committee on Government Operations, submitted the following

R E P O R T

[To accompany H.R. 10446]

The Committee on Government Operations, to whom was referred the bill (H.R. 10446) to permit the use of statistical sampling procedures in the examination of vouchers, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments are as follows:

Page 1, line 8, strike out "vouchers;" and insert in lieu thereof the following: "vouchers for amounts of less than \$100;"

Page 2, line 2, strike out the period after "procedure" and insert the following:

: *Provided*, That such officer and his department or agency have diligently pursued collection action to recover the illegal, improper, or incorrect payment in accordance with procedures prescribed by the Comptroller General.

PURPOSE

H.R. 10446 was submitted to Congress in its original form by the Bureau of the Budget. It would authorize department and agency heads to institute statistical sampling procedures in the examination of disbursement vouchers and thereby produce substantial economies and resulting savings in the operation of the Government. At the present time each and every voucher is examined at considerable cost prior to certification for payment. Evidence presented to the committee indicates this as an area where new methods can be adopted with little risk of loss.

ANALYSIS

H.R. 10446 as amended provides as follows: Section (a) authorizes department and agency heads to institute adequate and effective statistical sampling procedures in the examination of disbursement vouchers. This authority is required because the Comptroller General ruled that under existing law sampling methods could not be used. The committee amendment would limit the vouchers subject to sampling to those under \$100 thereby continuing the practice of examining all vouchers over that amount. Certifying officers would be relieved of liability for the improper certification or payment of vouchers that may not have been examined because of the statistical sampling procedure. This relief, however, is conditioned on the certifying officer's diligent efforts to recover any payments illegally, improperly, or incorrectly made. Such relief would be only fair and in the view of the Budget Bureau "would establish an environment within which tangible benefits may be achieved." But the proviso should militate against laxity if an improper payment is made and every practicable effort to recover the funds is put forth.

Section (b) would make clear the intent of the legislation that a recipient of an improper payment remains liable therefor and that this bill authorizes no relief for such recipient. Neither does it authorize relief from the responsibility that the appropriate governmental officers have of pursuing collection action against an improper recipient.

HEARINGS

Hearings on the bill were held by the Subcommittee on Executive and Legislative Reorganization and testimony was presented by representatives from the Bureau of the Budget, the General Accounting Office, and the Treasury Department. Nongovernmental experts testified from the American Institute of Certified Public Accountants and the American Statistical Association. All strongly supported the bill and urged its adoption.

GENERAL STATEMENT

It is the opinion of the committee that authority to use statistical sampling would further the modernization of governmental procedures and lead to substantial savings.

In recent years sampling techniques have been applied more and more to accounting. Though not widespread yet, their use has proved to be both economical and practical in certain aspects of financial management in both government and private industry. Methods are constantly being refined and new applications discovered.

This legislation has been proposed as a way to reduce costs in the area of internal financial control by the departments and agencies of the Federal Government. Under existing procedures, vouchers leading to the disbursement of funds are individually examined by designated employees prior to being certified for payment. On a Government-wide basis the number of vouchers may run into hundreds of thousands or possibly millions and the cost of the operation is very high. The purpose of the examination, however, is the sound one of assuring in advance of payment that the amounts claimed are correct, that the goods or services have been received, and that payment is in

accord with the laws, regulations, decisions, and administrative requirements. It helps protect the Government from negligent or willful acts that may result in improper payments. Certifying officers are held responsible for the existence and correctness of the facts stated on the voucher and for the legality of the proposed payment, and they are accountable for any improper payment made on the basis of their certification. It is only natural that they would satisfy themselves as to these matters before making the certification. They are, indeed, virtually compelled to do this by current statutes.

For some time various agencies have concluded that some sampling would be desirable but in a decision dated July 9, 1963 (B-150512), the Comptroller General ruled that under existing law the use of a statistical sampling plan for the examination of vouchers prior to and as a preparation for certification could not be sanctioned. The language of this bill was developed to overcome that decision.

The principal justification for instituting sampling procedures arises from special studies conducted by the Department of Agriculture and the Department of Health, Education, and Welfare. Both clearly demonstrated that the benefits derived from the detailed examination of individual vouchers were not commensurate with the cost incurred. In other words, the dollar amount of the errors discovered was often less than the total cost of the examination. The studies revealed that by using statistical sampling techniques on certain classes of vouchers significant reductions in examining costs could be achieved. The Department of Agriculture indicated a reduction in annual examining costs ranging from \$400,000 to \$500,000. The Department of Health, Education, and Welfare estimated annual net savings of \$268,000.

In the HEW study all vouchers processed during a 5-week period were included. There was a total number of 60,929 vouchers involving more than \$25 million. Approximately 40,000, or two-thirds of the vouchers, were in amounts under \$100. But these involved only 6 percent of the dollar amount of all vouchers. Errors discovered in the examination of all vouchers totaled \$85,005 (out of \$25 million). Of these errors only \$5,601 were found among vouchers under \$100. An estimate was made of the cost of examining the vouchers in which the errors were found. This amounted to \$51,789. Of this amount it cost approximately \$34,000 to discover the errors totaling \$5,601 in the vouchers under \$100.

The findings of the HEW study may be summarized as follows: The money value of both vouchers processed and errors discovered is heavily concentrated in the larger size vouchers, although these vouchers are only a small percentage of all vouchers processed. In contrast, vouchers under \$100 represented 66 percent of the total number of vouchers but only 6 percent of the total money involved and 7 percent of the money involved in errors. Examination of vouchers below \$100 is uneconomical because the cost of examination far outweighs the amounts recovered in that category. Examination of the higher amounts is practical and the results in recoveries justified the cost.

Not all agencies may produce the results of the HEW study but there is reason to believe a relative similarity in pattern exists throughout the Government.

On the basis of the studies and other evidence presented during the hearings, the committee concludes that the detailed examination of all

vouchers in the lower amounts may well be eliminated and a statistical sampling technique substituted in its place. We further conclude that sampling should be limited to vouchers under \$100 where the evidence is clear that examination is not economical. The bill has been amended accordingly. We reiterate that vouchers above \$100 are unaffected by this bill and will continue to receive the same individual detailed examination as is now required.

The committee has been concerned that the adoption of these procedures would produce a temptation on the part of some to attempt to take advantage of the system for their own personal gain. Our feeling is that this is not highly likely. Statistical sampling techniques such as are contemplated here would not become so standardized that they could be easily defeated. There would always be the possibility that a voucher with a planned error would be selected for examination. Furthermore, the internal audit system of most agencies would militate against the success of such practices. In any event, the General Accounting Office will issue a set of principles and standards that must be followed by all agencies using statistical sampling systems. A draft of the GAO standards is included in this report. The Committee on Government Operations, as well, will make periodic checks and maintain a watchful eye to see if the law is operating satisfactorily and produces the results we anticipate.

As noted above, the anticipated savings through the adoption of sampling techniques are considerable. If extended to the Government as a whole they could have a significant effect on operational costs. A real possibility exists that such could be realized if this legislation is enacted.

LETTER OF TRANSMITTAL TO SPEAKER OF THE HOUSE

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., March 3, 1964.

HON. JOHN W. McCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: There is forwarded herewith a draft of legislation to permit the use of statistical sampling procedures in the examination of vouchers.

This proposal is an outgrowth of the administration's continuing program to improve financial management practices in the Federal Government. It is based upon studies made by the Department of Agriculture and the Department of Health, Education, and Welfare. The results of such studies were reviewed by the General Accounting Office, the Treasury Department, and the Bureau of the Budget in conjunction with representatives of other major agencies.

PURPOSE OF THE LEGISLATION

Generally, the purpose of the proposed legislation is to authorize department and agency heads to prescribe the use of statistical sampling procedures in the examination of disbursing vouchers when it is determined that the accounting system and related internal controls are adequate and that economies will result from the adoption of such a procedure.

The use of statistical sampling approach to voucher examination will permit more effective manpower utilization and a significant reduction in examining costs without losing the intangible and deterrent advantages of examining every voucher.

JUSTIFICATION

The results of the studies by the Departments of Agriculture and Health, Education, and Welfare clearly demonstrated that the benefits derived from a detailed examination of each voucher before payment were not commensurate with the costs incurred. While significant improvements have been made in agency accounting systems and related areas of internal control during the past 15 years, very little change has been made in the voucher examination function. The accounting and internal control improvements have a direct and significant bearing on the need for conducting a detailed examination of every voucher. For example, agency systems, independent of the voucher examination process, provide a means of determining that funds are appropriately obligated; services and materials are actually received and that quality, quantity and price are in accord with the obligating documents. Thus the voucher examination process, properly constituted, should be an element of the agency internal control system designed to assist in the identification of faulty or improperly administered procedures.

The costly and frequently unnecessary voucher review processes are inherent in present statutes which hold, under certain conditions, certifying or disbursing officers responsible for incorrect payments, notwithstanding the adequacy of the accounting system and related controls. The Comptroller General has ruled that legislation is required in order to authorize the use of statistical sampling techniques. If this proposal is adopted, statistical sampling procedures would be established in conformity with principles, standards, and related requirements prescribed by the Comptroller General as provided in section 112 of the Accounting and Auditing Act of 1950, 31 U.S.C. 66.

Section (a) of the draft proposal provides that a certifying or disbursing officer acting in good faith and in conformity with approved statistical sampling procedures, established by the head of his department or agency, will not be held liable for an improper payment on a voucher which is not subject to examination under the prescribed system. This is essential in order to establish an environment within which tangible benefits may be achieved.

Section (b) of the draft legislation protects the interest of the Government by making it clear that the payee, beneficiary, or other recipient of an improper payment continues to be liable therefor, and that the administrative agency concerned has a continuing responsibility for collection action.

ESTIMATE OF SAVINGS

The use of statistical sampling in the examination of vouchers will permit more effective manpower utilization and a significant reduction in examining costs. Studies in Agriculture indicate a reduction in annual examining costs ranging from \$400,000 to \$500,000 and in Health, Education, and Welfare an estimated annual net saving of \$268,000. While it is not feasible to estimate the ultimate savings

that would result from the adoption of such a procedure Government-wide, it is reasonable to conclude that it would be substantial.

The proposed legislation is in accord with the administration's program of curtailing procedures and activities of little or no utility, adopting more efficient techniques, and providing for more effective manpower utilization. It is recommended that it be enacted by the Congress.

Sincerely,

KERMIT GORDON, *Director.*

[Enclosure]

GENERAL ACCOUNTING OFFICE DRAFT OF PRINCIPLES AND STANDARDS FOR USE IN STATISTICAL SAMPLING PROCEDURES IN THE EXAMINATION OF VOUCHERS (TO BE INCLUDED IN GAO MANUAL)

SECTION 4620—DEFINITION AND SCOPE OF STATISTICAL SAMPLING

4620.10 Statistical sampling in voucher auditing is a procedure which relies on the laws of probability to collect quantitative facts about the accuracy and other characteristics of a universe (or total file) of vouchers, by auditing only a sample (or a randomly selected part) of that universe, for use in making rational decisions.

Statistical sampling involves not only compliance with the laws of probability; it involves developing and applying scientific *sample designs* which may be broadly classified in the following six categories:

“(1) Formulating the audit problem which includes (a) defining the universe of vouchers in terms of its elementary units, total number of vouchers, or sampling units (groups of vouchers), and (b) stating the objectives of the audit clearly in writing and in quantitative terms, where required.

“(2) Selecting and using appropriate probability sampling methods.

“(3) Determining the size of sample needed to meet the prespecified audit objectives.

“(4) Selecting and using appropriate procedures of estimation of the characteristics of the universe of vouchers from the sample data.

“(5) Selecting formulas for, and evaluating the magnitude of, sampling error in the resulting estimates.

“(6) Presenting the results to management with proper interpretation.”

SECTION 4630—WHERE AND WHEN TO APPLY STATISTICAL SAMPLING

Statistical sampling should not be applied indiscriminately to auditing vouchers, merely for the sake of using sampling. When audit costs on a 100-percent basis cannot be reduced (as in the case when the volume of vouchers is so small that it is not feasible to reduce the audit staff) by sampling, 100

percent audits may be preferable. A sound criterion to be guided by is: *Statistical sampling should be applied when a reduction in current auditing costs is feasible within tolerable money errors or error rates acceptable to management. It should also be applied whenever the audit program can be improved and better management control and attention emanate from the statistical indicators.*

SECTION 4640—TESTING FEASIBILITY OF STATISTICAL SAMPLING

The above criteria for applying statistical sampling place a responsibility on the agency for advance planning, and particularly for a research study to determine the most efficient sample design and to estimate the probable economies and improvements which might be achieved by probability sampling. As a general rule, this advance study should aim to collect and analyze data for each type of voucher on the distribution of vouchers by amount categories. Similarly, data should be obtained on the number of vouchers in each amount category found to have money errors and the amount of the money errors. It should also aim to collect and analyze data on the unit cost of auditing each type of voucher, by amount categories, and on the size and flow of the auditing workload by time and geographic location of field units. The latter data are essential to consider the advantages to centralized auditing versus decentralized auditing.

SECTION 4650—STANDARDS OF STATISTICAL SAMPLING

4650.10 FORMULATING AUDIT OBJECTIVES. Auditing vouchers by sampling is generally feasible if management is willing to tolerate a reasonable amount of money errors in the finally certified vouchers and is willing to take a reasonable risk of occasionally exceeding the maximum tolerable error. Hence, under a statistical sampling procedure of auditing, a set of new concepts and principles operates than under complete audits. This requires a clear-cut reformulation of the audit objectives. As a minimum, it involves the following:

“(1) Determining the maximum tolerable money error or error rate.

“(2) Specifying the desired assurance of containing the error within the tolerable limits, or the risk of exceeding the maximum tolerable error. These two objectives involve quantitative expressions by management.

“Some of the additional objectives are:

“(3) To detect auditors or auditing units which require more training on auditing rules, regulations, and procedures in order to improve their product.

“(4) To detect and correct money errors, usually concentrating on the largest money amounts.

"(5) To detect the frequently occurring types of errors and determine their causes so that management action may be taken to minimize them.

"(6) To estimate the amount of money errors in the original voucher preparation process (incoming error) and to estimate the amount of money errors tolerated in finally certified vouchers (outgoing error). These estimates will permit management to maintain continuing control over the error amount and error frequency."

4650.20 SELECTING AND USING APPROPRIATE PROBABILITY SAMPLING METHODS. Statistical sampling, in its ultimate stage, involves random selection of the vouchers for the sample audit. Random selection is not subjective or judgmental selection. It must be based on objective procedures such as are offered when reliance is placed on Tables of Random Digits.

Several acceptable methods of sampling are available, including simple random sampling (complete reliance on tables of random digits), systematic random sampling (reliance on tables of random digits for a random start), random cluster sampling, and stratified random sampling.

In the light of the goal of reduced auditing costs with a minimum loss of accuracy (for minimum money error), stratified random sampling usually offers an ideal approach for efficient auditing by sampling. Therefore, the agency should in all cases consider the feasibility of stratification (grouping) of vouchers by amount categories or other characteristics related to amount, and random selection of a sample of vouchers from each stratum to be audited.

On the other hand, there may be occasions where acceptance sampling procedures are more appropriate, utilizing efficient stratifications or voucher-lot formations.

4650.30 DETERMINING SAMPLE SIZE. Sample size is usually determined in terms of number of vouchers to be audited, rather than percentage of the total. The number of vouchers to be audited should be as small as possible consistent with objectives of maximum tolerable error and specified assurance. When the number of vouchers in the sample to be audited contains heavy representation of the largest amount categories and lighter representation of the smaller amount categories, the sample will usually yield best results for a given audit cost.

4650.40 ESTIMATION PROCEDURES. To meet the audit objectives it is essential to inflate the results of the sample to estimate the characteristics of the universe, such as total amount of money errors in the originally prepared vouchers (incoming error) and amount of money errors tolerated (outgoing error). Because statistical theory has developed several estimation procedures, a choice should be made of the best and most fruitful methods. Some of the available methods to consider are: simple blowup estimate; ratio estimate; weighted estimate; regression estimate and difference method of estimation.

4650.50 EVALUATING SAMPLING ERROR IN THE ESTIMATE. Every estimate based on a probability sample is subject to a range of error due to sampling. The measure of the magnitude of error due to sampling is called the *standard error of the estimate*. This measure which is in reality the difference between the result of the sample and the result that would have been obtained from a complete audit, is calculated from the sample results. It is an objective measure subject to no opinion, but is dependent on the correct execution of the probability sample selection procedures previously established. Management must, therefore, assure the correct implementation of the statistical sampling procedure, to assure that standard errors may be computed.

4650.60 ASSURANCE AND RISK. A small standard error of estimate means that the estimate based on the sample is small relative to the result (i.e., money error discovered and corrected) that would have been obtained from a complete audit; similarly, a large standard error means that the estimate based on the sample is large relative to the result that would have been obtained from the complete audit. In either event, there is no complete or 100 percent assurance that the small, or the large, error may not be exceeded, although in most cases it would be much less. To determine the extent of certainty that the actual error will not be exceeded, a level of confidence satisfactory to management must be selected. A frequently selected level of assurance is 95 percent; i.e., that in the long run 95 out of 100 such estimates will fall within the range (+ or -) of the allowed standard error.

Conversely, this automatically implies a risk of 5 percent; i.e., that in the long run 5 out of 100 such estimates will differ from the complete audit result by an amount greater than the allowable standard error of estimate.

4650.70 PRESENTATION OF THE RESULTS TO MANAGEMENT. Proper implementation of the objectives of the sample audit requires the establishment of a recurring (monthly, quarterly, etc.) reporting system to management. This requires establishing with management an agreed on reporting system which would show, for example, estimates of the incoming and outgoing error amounts (or rates), the primary sources and causes of error and other relevant findings. Appropriate management action, where indicated by the data, should be taken to improve the audit program wherever possible.

4650.80 RECORDS AND ACTIONS. To provide a basis for investigating the compliance by an agency with the foregoing standards of statistical sampling in auditing vouchers, records must be maintained by the agency of all aspects of the sample design, including such elements as the specific sampling procedures, the standard error formulas, and the resulting calculations. The records must also indicate specific instances when deviations from prescribed procedures occurred and, if possible, the nature and probable magnitude of these deviations.

SECTION 4660—MINIMUM REQUIREMENTS FOR AN ADEQUATE
STATISTICAL SAMPLING SYSTEM

4660.10 A sampling plan must be based on sound probability principles and concepts, clearly outlined in written instructions for guidance of personnel.

4660.20 The plan must be predicated on economic and feasibility studies of the situation to which the plan applies and these studies must be sufficiently documented to permit review and evaluation of its characteristics.

4660.30 Controls must be established to assure adherence to the established plan. Vouchers actually examined should carry evidence of the examination.

4660.40 A monetary limit must be established above which all vouchers will be examined. The limit should be based on the economic and feasibility studies. In no case should this limit be in excess of \$_____.

4660.50 The plan must be supervised by personnel having adequate knowledge of statistical sampling techniques as applied to auditing and of the essential features of the plan. This does not necessarily require the services of a trained statistician.

4660.60 Recurring reports must be prepared for top management presenting the results of the sampling audit.

STATISTICAL SAMPLING: AN EXPLANATION

The following was prepared for the committee by Prof. Frederick F. Stephan of Princeton University; chairman, Committee on Statistics and Accounting, American Statistical Association:

Sampling is the familiar practice of taking one or more parts of something and inspecting them to obtain evidence of the quality of the whole lot from which they were taken. To make sure that the information is dependable there are many rules of procedure and devices for taking samples of wheat, cotton, ore, coal, milk, and other materials. If samples are taken carelessly, or with intent to deceive, or with too few specimens to show the quality of the material accurately, then the evidence presented will be biased and misleading.

Statistical sampling is an improvement on previous sampling practice. It uses well-established principles of mathematical probability to determine how accurate the samples will be when they are taken from a given kind of material by a definite method of selecting the specimens. It makes possible the calculation of the number of specimens or size of the samples necessary to provide information of a desired degree of accuracy. It includes various procedures that can be utilized to make the sampling work well and to reduce the cost of inspection. These procedures are set forth in several books on statistical sampling for auditors and accountants as well as in statistical treatises and in the professional journals.

Statistical sampling is based on well-controlled methods of selecting the specimens or items. These methods are generally known as random sampling and they assure to each specimen or item an equal chance of being selected. In this they resemble the established methods of selecting jurors by lot. Usually it is more efficient to divide the material to be sampled into groups of similar items and then sample each group at a rate appropriate to its qualities and importance. Thus in sampling vouchers, those with the larger amounts would be all selected for examination, those with smaller amounts would be sampled to an appropriate extent as determined from the amounts of the errors they contain and other factors, while those vouchers with still smaller amounts would be sampled to a lesser extent.

It seems clear that so far as is feasible in advance of their examination, vouchers should be classified somewhat as follows:

(1) All vouchers that can be distinguished by their amounts and other features as likely to save more money than it costs to examine them. These should all be examined.

(2) Other kinds of vouchers classified into several classes according to the likely amount of error and probable cost of examining each class. Although these vouchers can be expected to cost more to examine than the errors that will be discovered and corrected thereby, some extent of examination is needed for the effect it will have in deterring carelessness and intentionally false or illegal claims. The rate of sampling and extent of examination for each group should be determined by the results of previous experiences concerning the auditing costs and amounts of error found, as well as by the probable contribution each class makes to the total deterrent effect of the auditing program.

Statistical sampling will be important in (a) assuring that vouchers of different kinds will be subjected to examination to the extent appropriate for each kind, and (b) providing dependable estimates of the amounts of error to be expected from previous experience with each kind of voucher so that the appropriate extent of auditing can be determined for each group.

H.R. 10446 specifies that the procedures of statistical sampling be adequate and effective. This can be accomplished by the cooperative effort of accountants and statisticians expert in these matters.

REPORTS OF DEPARTMENTS AND AGENCIES

DEPARTMENT OF AGRICULTURE

DEPARTMENT OF AGRICULTURE,
Washington, D.C., April 28, 1964.

Hon. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives

DEAR MR. CHAIRMAN: This is in reply to your request of March 18, 1964, for a report on H.R. 10446, a bill to permit the use of statistical sampling procedures in the examination of vouchers.

This Department strongly recommends that the bill be enacted.

The bill provides authority for a Department or agency head to prescribe the use of statistical sampling procedures in the prepayment examination of disbursement vouchers when he determines that economies will result therefrom.

A study conducted by this Department in 1962 revealed that the present practice of complete examination of all vouchers requires more manpower and results in greater costs than are justified by the net monetary savings from amounts disallowed from the vouchers as a result of the examination. As part of this study, a statistical sampling plan was designed and tested under actual voucher examination operations during July and August of 1962. Statistical and cost data obtained from this pilot test were analyzed to evaluate the effectiveness of the use of the statistical sampling method in relation to the results obtained from complete examination of every voucher. This preliminary study and pilot test indicate that, through the use of statistical sampling procedures, voucher examination costs in the Department of Agriculture may be reduced as much as \$400,000 to \$500,000 annually without losing the intangible benefits and deterrent advantages of examining every voucher.

A proposal to use statistical sampling procedures in the examination of vouchers was submitted by the Department of Agriculture to the Comptroller General for approval in December 1962. However, the Comptroller General advised that the use of statistical sampling procedures could not be sanctioned under existing law. Enactment of H.R. 10446 would remove this barrier.

The Bureau of the Budget advises that there is no objection to the presentation of this report from the standpoint of the administration's program.

Sincerely yours,

ORVILLE L. FREEMAN, *Secretary.*

DEPARTMENT OF COMMERCE

GENERAL COUNSEL OF THE DEPARTMENT OF COMMERCE,
Washington, D.C., April 30, 1964.

Hon. WILLIAM L. DAWSON,
*Chairman, Committee on Government Operations,
U.S. House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in reply to your request for the views of this Department on H.R. 10446, a bill to permit the use of statistical sampling procedures in the examination of vouchers.

The personal liability of certifying officers for erroneous payments has precluded the use of statistical sampling methods in the examination of disbursement vouchers. The subject bill will relieve the certifying officer of personal liability for the certification or payment made by him on a voucher which was not subject to specific examination because of the prescribed statistical sampling procedure. In order to avoid liability, the certifying officer must have followed the prescribed sampling procedures.

The use of statistical sampling procedures will allow the Department to accommodate increases in the volume of vouchers to be processed involving small dollar amounts. It is not expected that payments involving amounts in excess of \$200 would be subject to the sampling process but would continue to be individually examined. Comments from the various accounting activities within the Department indicate general approval of the proposal. The amount of savings to be realized will vary according to the volume and type of payments made by the various organizations. We are confident that appropriate sampling procedures may be developed to assure that the interest of the Government is protected.

The Department of Commerce recommends favorable consideration of this bill.

We have been advised by the Bureau of the Budget that there would be no objection to the submission of this report from the standpoint of the administration's program.

Sincerely,

ROBERT E. GILES.

GENERAL ACCOUNTING OFFICE

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, May 1, 1964.

Hon. WILLIAM L. DAWSON,
*Chairman, Committee on Government Operations,
House of Representatives.*

DEAR MR. CHAIRMAN: Your letter of March 18, 1964, acknowledged March 20, transmitted a copy of H.R. 10446, entitled "A bill to permit the use of statistical sampling procedures in the examination of vouchers," and requested our report and comments thereon.

Generally, the purpose of the bill is to authorize the heads of Federal departments and agencies and the Commissioners of the District of Columbia to prescribe the use of statistical sampling procedures in the precertification or prepayment examination of disbursement vouchers by certifying or disbursing officers in their departments or

agencies whenever it is determined that the accounting system and related internal controls are adequate to protect the Government and that economies will result from the adoption of such procedures.

The use of statistical sampling procedures in the precertification or prepayment examination of disbursement vouchers has been under consideration for some time. Several departments have made a study of the advantages to be gained by such procedures. Under date of December 19, 1962, the Secretary of Agriculture requested the consideration and approval of the Comptroller General of a proposal to adopt such procedures in his Department. By decision of July 9, 1963, B-150512, we held that under existing law we could not sanction the use of a statistical sampling plan for the examination of vouchers prior to and as preparation for certification.

Subsequent to our decision, a project was established under the steering committee of the joint financial management improvement program to explore the benefits and advantages of using statistical sampling procedures in the examination of disbursement vouchers prior to certification or payment and, if such procedures were deemed desirable, to prepare language for proposed legislation to authorize the use thereof. The language of H.R. 10446 was developed as a result of that project.

The bill authorizes the head of a Government department or agency to prescribe the use of sampling procedures whenever he determines economies would result therefrom. If the bill is enacted, such procedures would constitute part of the accounting system of the department or agency, and hence must conform to the "principles, standards, and related requirements for accounting" prescribed by the Comptroller General of the United States under the authority of section 112 of the Accounting and Auditing Act of 1950, approved September 12, 1950 (ch. 946, 64 Stat. 835, 31 U.S.C. 66). Our staff has begun the development of such "principles, standards, and related requirements" for statistical sampling procedures and we expect to have a draft of tentative principles and standards ready shortly.

We have no basis on which to make an estimate of the potential savings that Government departments and agencies may realize under the procedures authorized by the bill. However, it would appear from the studies made by the Departments of Agriculture and Health, Education, and Welfare that the adoption of adequate and effective statistical sampling procedures should result in a reduction in the cost of the voucher examination functions without losing the deterrent effect of examining every voucher. Hence, we have no objection to the enactment of a bill authorizing the use of adequate and effective statistical sampling procedures in the precertification or prepayment examination of disbursement vouchers.

We have one reservation concerning the bill. As now worded, even though section (b) clearly provides that the payee, beneficiary, or recipient of any illegal, improper, or incorrect payment continues to be liable therefor, and that the certifying or disbursing officer involved, as well as the administrative agency concerned, has a continuing responsibility to pursue collection action against said payee, etc., section (a) would appear to require the relief of any officer who comes within its provisions of all responsibility for the payment before such collection action is taken or, indeed, even if such action is never taken. This is contrary to the principles established by the

existing disbursing officers' relief act (sec. 1 of the act of Aug. 11, 1955, ch. 803, 69 Stat. 687, 31 U.S.C. 82a-2), which specifically provides that "relief may be denied in any case in which the Comptroller General or his designee determines that the department, agency, or independent establishment concerned has not diligently pursued collection action in accordance with procedures prescribed by the Comptroller General." Likewise, the existing certifying officers' relief act (sec. 2 of the act of Dec. 29, 1941, ch. 641, 55 Stat. 875, 31 U.S.C. 82c) gives the Comptroller General sufficient discretion in granting relief thereunder to permit the withholding of relief where collection action is not diligently pursued. We perceive no cogent reason why relief under the present bill should be granted regardless of failure to take diligent collection action. Moreover, we believe the authority to withhold relief pending the undertaking of diligent collection action constitutes a salutary inducement to the officers and agencies involved to undertake such action promptly. Therefore, we strongly recommend that the bill be amended to condition the relief from liability granted thereby upon the diligent pursuit of collection action. This may be accomplished by changing the period at the end of section (a) of the bill to a colon, and adding the following: "Provided, That such officer and his department or agency have diligently pursued collection action to recover the illegal, improper, or incorrect payment in accordance with procedures prescribed by the Comptroller General."

This language, like that of the cited relief statutes, does not require actual successful collection prior to relief from liability. We recognize that in some instances collection may be difficult or impossible. All that is required in order to qualify for relief from liability (if the payment in question otherwise falls within the purview of the bill), is that the officer involved and his department or agency have actually and in good faith diligently pursued collection action in accordance with existing procedures prescribed by the Comptroller General.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

FEDERAL AVIATION AGENCY

FEDERAL AVIATION AGENCY,
Washington, D.C., April 28, 1964.

Hon. WILLIAM L. DAWSON,
*Chairman, Committee on Government Operations,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in reply to your request for the views of this Agency with respect to H.R. 10446, a bill to permit the use of statistical sampling procedures in the examination of vouchers.

This Agency concurs in the conclusions of the Department of Agriculture and the Department of Health, Education, and Welfare studies that present voucher review processes are costly and unnecessary when performed in detail. We believe the Federal Aviation Agency can achieve significant manpower savings with the use of statistical sampling in the examination of vouchers without weakening

essential controls in accounting systems. We therefore strongly support the enactment of this legislation.

The Bureau of the Budget has advised that there is no objection from the standpoint of the administration's program to the submission of this report to your committee.

Sincerely,

HAROLD W. GRANT,
Lieutenant General, U.S. Air Force, Deputy Administrator.

GENERAL SERVICES ADMINISTRATION

GENERAL SERVICES ADMINISTRATION,
Washington, D.C., April 8, 1964.

Hon. WILLIAM L. DAWSON,
*Chairman, Committee on Government Operations,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: Further reference is made to your letter of March 18, 1964, requesting a report of the General Services Administration on H.R. 10446, a bill to permit the use of statistical sampling procedures in the examination of vouchers.

This bill would relieve certifying and disbursing officers, acting in good faith and in conformity with properly prescribed statistical sampling procedures, from liability with respect to any certification or payment which was not subject to specific examination because of the prescribed statistical sampling procedure. Nothing in the bill would affect the liability, or authorize the relief, of any payee, beneficiary, or recipient of any illegal, improper, or incorrect payment, or relieve any certifying or disbursing officer, the head of any department or agency of the Government, the Commissioners of the District of Columbia, or the Comptroller General of responsibility to pursue collection action against any such payee, beneficiary, or recipient.

For the reasons expressed by the Bureau of the Budget in its letter of March 3, 1964, transmitting the bill to the Speaker of the House of Representatives, GSA favors enactment of this legislation.

The financial effect of the enactment of this legislation on GSA cannot be estimated at this time.

The Bureau of the Budget has advised that, from the standpoint of the administration's program, there is no objection to the submission of this report to your committee.

Sincerely yours,

LAWSON B. KNOTT, Jr.,
Acting Administrator.

DEPARTMENT OF STATE

DEPARTMENT OF STATE,
Washington, April 15, 1964.

Hon. WILLIAM L. DAWSON,
*Chairman, Committee on Government Operations,
House of Representatives.*

DEAR MR. CHAIRMAN: Thank you for your letter of March 18, 1964, transmitting bill, H.R. 10446, to permit the use of statistical sampling procedures in the examination of vouchers. The Department is extremely interested in this proposed legislation and we are convinced that economies will result therefrom. We concur with the language of the bill as presented.

The Bureau of the Budget advises that from the standpoint of the administration's program there is no objection to the submission of this report.

Sincerely yours,

FREDERICK G. DUTTON,
Assistant Secretary
(For the Secretary of State).

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
Washington, June 1, 1964.

Hon. WILLIAM L. DAWSON,
*Chairman, Committee on Government Operations,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This letter is in response to your request of March 19, 1964, for a report on H.R. 10446, a bill to permit the use of statistical sampling procedures in the examination of vouchers.

The bill would provide that the head of any department or agency may, when he determines that economies will result, prescribe the use of adequate and effective statistical sampling procedures in examining disbursement vouchers. It further provides that certifying officers acting in good faith and in conformity with accepted procedures will not be held liable for certification of vouchers not examined in the sampling procedure.

This Department made a thorough and exhaustive study of statistical sampling in voucher examination. The results of that study and our conclusion closely parallel the views expressed in the letter of March 3, 1964, written by Mr. Kermit Gordon, Director of the Budget Bureau, which accompanied the draft legislation when it was proposed.

We believe there will be two primary benefits, (1) a saving of money and (2) a decrease in the length of time required to process payments to vendors. For these reasons and others given in Mr. Gordon's letter, we recommend that H.R. 10446 be enacted.

We are advised by the Bureau of the Budget that there is no objection to the presentation of this report from the standpoint of the administration's program.

Sincerely,

A. J. CELEBREZZE, *Secretary.*

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION,
 OFFICE OF THE ADMINISTRATOR,
Washington, D.C., May 1, 1964.

Hon. WILLIAM L. DAWSON,
*Chairman, Committee on Government Operations,
 House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This replies further to your request for a report by the National Aeronautics and Space Administration on H.R. 10446, a bill to permit the use of statistical sampling procedures in the examination of vouchers.

H.R. 10446 in subsection (a) would authorize the head of any department or agency to prescribe the use of statistical sampling procedures in the examination of disbursement vouchers upon the determination that economies would result therefrom. Certifying or disbursing officers who act in good faith and in conformity with such procedures would not be held liable with respect to any certification or payment which was not subject to specific examination because of the use of prescribed statistical sampling procedures.

Subsection (b) of H.R. 10446 would provide that nothing in the proposed legislation would affect the liability, or authorize the relief, of any payee, beneficiary, or recipient of any illegal, improper, or incorrect payment; or relieve the duty, under present law, incumbent upon any certifying or disbursing officer, the head of any department or agency, the Commissioners of the District of Columbia, or the Comptroller General to pursue collection against any such person.

The National Aeronautics and Space Administration recommends enactment of H.R. 10446.

The Bureau of the Budget has advised that there is no objection, from the standpoint of the program of the President, to the submission of this report to the Congress.

Sincerely yours,

RICHARD L. CALLAGHAN,
Assistant Administrator for Legislative Affairs.

TENNESSEE VALLEY AUTHORITY

TENNESSEE VALLEY AUTHORITY,
Knoxville, Tenn., March 27, 1964.

Hon. WILLIAM L. DAWSON,
*Chairman, Committee on Government Operations,
 House of Representatives, Washington, D.C.*

DEAR MR. DAWSON: This is in response to your letter of March 18, requesting a report on H.R. 10446, a bill to permit the use of statistical sampling procedures in the examination of vouchers.

We think the enactment of such legislation would be a progressive step and would result in considerable savings in administrative costs. Consequently, we strongly favor the enactment of H.R. 10446.

The Bureau of the Budget advises that it has no objection to the presentation of this report from the standpoint of the administration's program.

Sincerely yours,

AUBREY J. WAGNER, *Chairman.*

DEPARTMENT OF THE TREASURY

THE GENERAL COUNSEL OF THE TREASURY,
Washington, April 17, 1964.

Hon. WILLIAM L. DAWSON,
*Chairman, Committee on Government Operations,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in reply to your request for the views of this Department on H.R. 10446, to permit the use of statistical sampling procedures in the examination of vouchers.

The proposed legislation is one of the results of the joint efforts of the Treasury Department, Bureau of the Budget, and General Accounting Office in collaboration with the departments and agencies toward improvement of financial management practices in the Federal Government.

The legislation would permit department and agency heads to prescribe a system of precertification examination of disbursing vouchers on a statistical sampling basis where a determination had been made as to the efficacy of such a system, based on expected economies and the existence of adequate internal control. Certifying (or disbursing) officers acting in good faith would not have any liability with respect to a voucher which was not subject to examination under the authorized system.

The Department believes that the provisions of the proposed legislation will permit audit effort to be concentrated on those classes of vouchers having the greatest potential return. It is also believed that the improvement of Federal financial administration during the past 15 years permits adoption of the sampling procedure at this time. Further, agency tests utilizing the techniques embodied in the bill before your committee have shown that the statistical sampling approach to voucher examination is entirely feasible and desirable from the standpoint of manpower utilization and elimination of processes having little or no utility, particularly with respect to certain classes of vouchers.

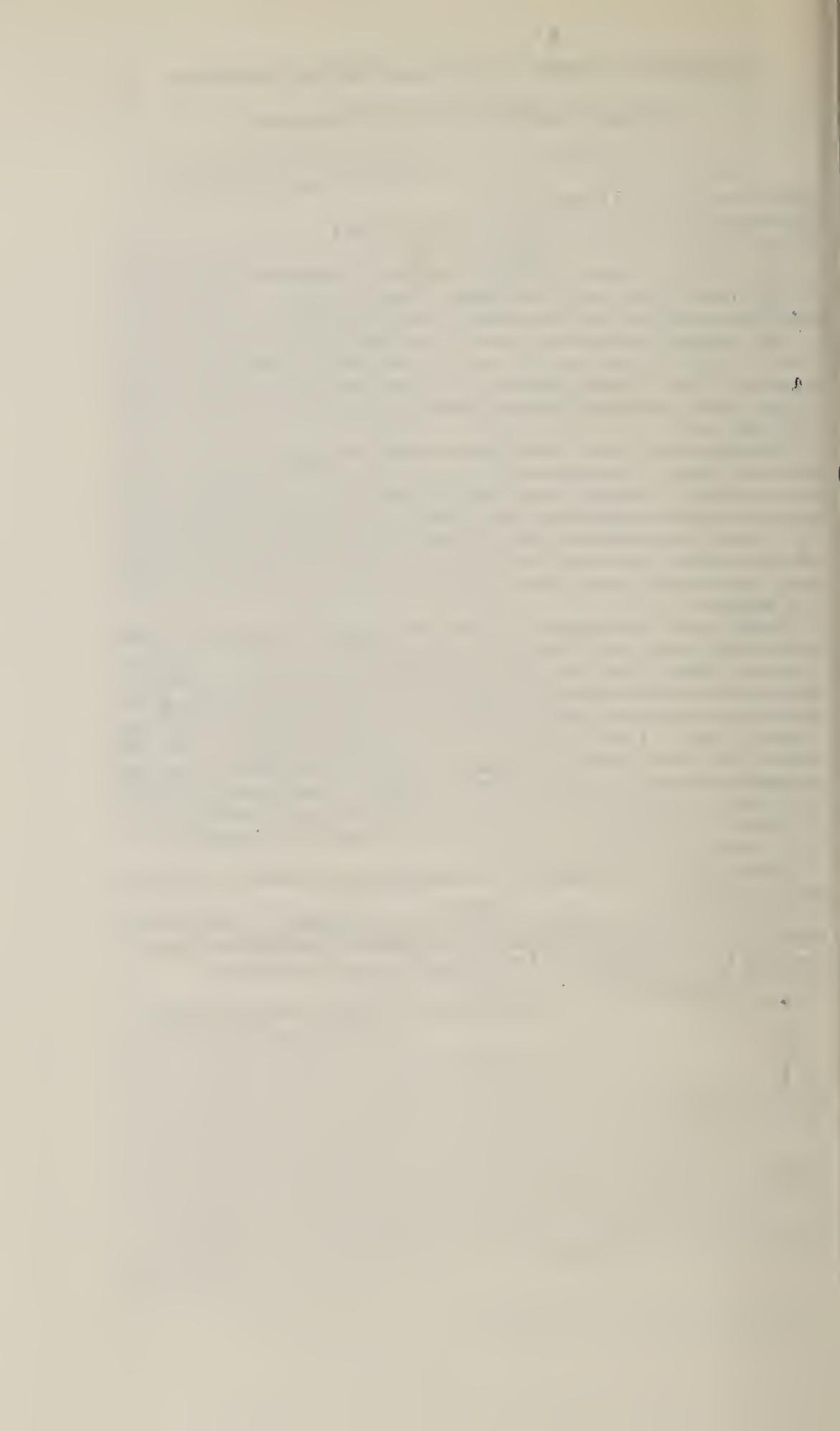
Accordingly, the Department recommends enactment of the proposed legislation.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the administration's program to the submission of this report to your committee.

Sincerely yours,

G. d'ANDELOT BELIN, *General Counsel.*





88TH CONGRESS
2D SESSION

Union Calendar No. 730

H. R. 10446

[Report No. 1643]

IN THE HOUSE OF REPRESENTATIVES

MARCH 16, 1964

Mr. ROSENTHAL introduced the following bill; which was referred to the Committee on Government Operations

JULY 31, 1964

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Omit the part struck through and insert the part printed in italic]

A BILL

To permit the use of statistical sampling procedures in the examination of vouchers.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 (a) That, whenever the head of any department or agency
4 of the Government or the Commissioners of the District of
5 Columbia determines that economies will result therefrom,
6 such agency head or the Commissioners may prescribe the
7 use of adequate and effective statistical sampling procedures
8 in the examination of disbursement ~~vouchers~~; *vouchers for*
9 *amounts of less than \$100*; and no certifying or disbursing
10 officer acting in good faith and in conformity with such pro-
11 cedures shall be held liable with respect to any certification

1 or payment made by him on a voucher which was not subject
2 to specific examination because of the prescribed statistical
3 sampling ~~proce~~*cedure procedure*, provided that such officer and
4 his department or agency have diligently pursued collection
5 action to recover the illegal, improper, or incorrect payment
6 in accordance with procedures prescribed by the Comptroller
7 General.

8 (b) Nothing contained in this Act shall affect the
9 liability, or authorize the relief, of any payee, beneficiary, or
10 recipient of any illegal, improper, or incorrect payment, or
11 relieve any certifying or disbursing officer, the head of any
12 department or agency of the Government, the Commissioners
13 of the District of Columbia, or the Comptroller General
14 of responsibility to pursue collection action against any
15 such payee, beneficiary, or recipient.

88TH CONGRESS
2D SESSION

H. R. 10446

[Report No. 1643]

A BILL

To permit the use of statistical sampling procedures in the examination of vouchers.

By Mr. ROSENTHAL

MARCH 16, 1964

Referred to the Committee on Government Operations

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Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

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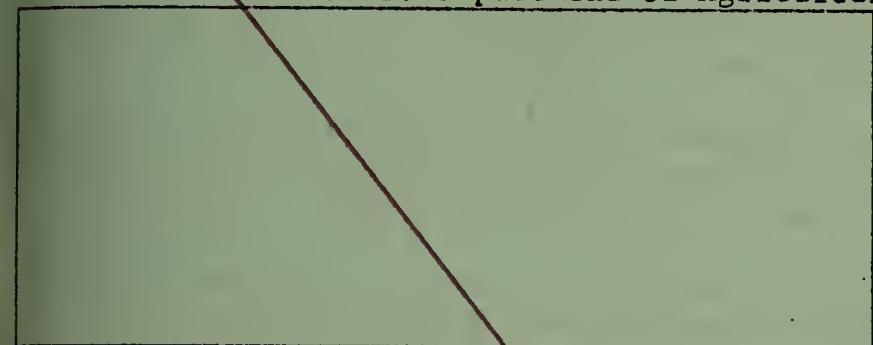
OFFICE OF
BUDGET AND FINANCE

(For information only;
should not be quoted
or cited)

Issued Aug. 4, 1964

For actions of Aug. 3, 1964

88th-2nd; No. 149



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HIGHLIGHTS: House committee reported Appalachia bill. House received conference report on pay bill. Senate debated foreign-aid authorization bill. House committee reported bill to establish Federal agricultural services to Guam. Rep. Olsen, Mont., submitted and discussed measure to provide that House concur in Senate amendments to meat import bill. pp. 17204, 17266-7, 17292

HOUSE

1. PAY. Received the conference report on H. R. 11049, the Federal pay bill (H. Rept. 1647). pp. 17267-82
2. D. C. APPROPRIATION BILL, 1965. Conferees were appointed on this bill, H. R. 10199. Senate conferees have already been appointed. p. 17200
3. LEGISLATIVE APPROPRIATION BILL, 1965. Conferees were appointed on this bill, H. R. 10723. Senate conferees have already been appointed. pp. 17200-2
4. ACCOUNTING. Passed under suspension of the rules H. R. 10446, to permit the use of statistical sampling procedures in the examination of vouchers. This bill had earlier been reported with amendment. (H.Rept.1643.pp/17244-5

bill had been earlier reported with amendment (H. Rept. 1643). pp. 17244-5,
17292

5. APPALACHIA. The Public Works Committee reported with amendment H. R. 11946, the Appalachian bill (H. Rept. 1641). p. 17292

Rep. Schwengel criticized the Appalachian bill, listing some of the "grave shortcomings of this proposal." pp. 17264-6

6. GUAM. The Agriculture Committee reported with amendment, H. R. 3869, to establish Federal agricultural services to Guam (H. Rept. 1645). p. 17292

7. FORESTRY. The Agriculture Committee reported without amendment S. 51, to authorize the Secretary of Agriculture to relinquish to Wyo. jurisdiction over certain lands in the Medicine Bow National Forest (H. Rept. 1646). p. 17292

8. ADMINISTRATIVE LAW. Passed over without prejudice S. 1634, to provide for continuous improvement of the administrative procedure of Federal agencies by creating an Administrative Conference of the United States. p. 17206

9. COMMITTEES. Received a list showing employees, positions, and salaries of the staff of each committee. pp. 17283-92

10. PERSONNEL. Rep. Olsen, Mont., urged adoption of his bill, H. R. 8162, providing for an increase in civil service retirement benefits. pp. 17263-4

11. EDUCATION. Rep. Perkins inserted data indicating the effect of the impacted-areas laws on each congressional district. pp. 17237-41

12. POVERTY. Rep. Frelinghuysen urged defeat of the poverty bill and adoption in its place of his bill, H. R. 11050, providing "substantial sums" over a three-year period without creating "a new and entirely unnecessary Federal agency." p. 17205 ..

13. MEAT IMPORTS. Rep. Teague, Calif., announced that he would have no objection to referring to H. R. 1839, the meat import bill, as "the Teague bill." p. 17205

Rep. Talcott spoke in favor of the meat-import restrictions bill. p. 17205

Rep. Morris stated that "the cattlemen of Australia...got the best end of the bargain" in the agreement on meat imports and that 10 percent of the excess supply of beef is coming from imports. p. 17204

14. FORESTRY; PERSONNEL. Passed without amendment, S. 2218, to authorize the Secretary of Interior to accept the transfer of certain national forest lands in Cocke Co., Tenn., for purposes of the Foothills Parkway. p. 17210

Passed over without prejudice, H. R. 3800, to authorize the waiver of collection of certain erroneous payments made by the Federal Government to certain civilian and military personnel. p. 17208

Passed without amendment H. R. 11546, to validate certain payments made to employees of the Forest Service. p. 17209

Passed as reported, H. R. 4242, to provide for the release and transfer of all right, title, and interest of the U. S. in certain tracts of land in Pender County, N. C. p. 17209

Passed without amendment, H. R. 10069, to authorize exchange of lands adjacent to the Lassen National Forest, Calif. p. 17210

15. INSPECTION SERVICES. Passed without amendment H. R. 9180, to enable the Secretary of Agriculture to furnish, upon a reimbursable basis, certain inspection services involving overtime work. pp. 17209-10

amendment in the nature of a substitute was adopted. In brief, Section 1 provides that an allowance not to exceed \$10 per day for employees of the California offshore islands shall be paid over and above their regular compensation. This allowance would be set only in accordance with regulations prescribed by the President. Section 2 would validate the payments made under the Travel Expense Act and the employees who received such payments would be relieved of all liability to refund them to the United States. It would authorize the Secretary of the Treasury to pay to the employees any amounts which may have been withheld from them to satisfy the Government's claim against them. Section 3 would permit the allowance authorized by the bill to be made retroactive so that eligible employees who have received no payments since the Comptroller's decision of May 4 would be entitled to the allowance for each day worked since the cutoff date.

This bill was reported unanimously by the Committee on Government Operations and it is our opinion that this legislation would not only be an act of justice and equity to these employees who work under most difficult circumstances, but will insure the manpower needed to maintain our Nation's defense on the offshore islands.

(Mr. HOLIFIELD (at the request of Mr. ROSENTHAL) was given permission to extend his remarks at this point in the RECORD.)

Mr. HOLIFIELD. Mr. Speaker, I strongly support H.R. 11211 to provide an allowance for employees of the Navy Department now working on the California offshore islands and to relieve them from refunding to the Navy any payments for subsistence expenses which they may have erroneously received in the past.

The conditions under which these employees work require extra compensation from the Government. They remain on these islands from early Monday until Friday night and must maintain homes for their families on the mainland. The lodging and food which they must purchase from the Government while on the islands are expenses that we should not expect our Federal employees to pay out of their own pockets.

For a number of years the Navy Department has been paying these employees a per diem rate to cover these expenses, but the General Accounting Office ruled that such payments under the Travel Expense Act were illegal. This may be so. I have no quarrel with the Comptroller General's interpretation of the law. I do know, however, that some alternative should be provided so that these expenses can properly be paid. We have such an alternative in this bill and I hope that it will be quickly passed by both Houses of Congress so that the anxiety of these employees can be relieved and the important work in national defense that is going on on these islands can be continued.

Mr. ANDERSON. Mr. Speaker, I yield myself such time as I may require.

(Mr. ANDERSON asked and was given permission to revise and extend his remarks.)

Mr. ANDERSON. Mr. Speaker, this bill was reported unanimously by the Executive Reorganization Subcommittee of the Committee on Government Operations, and I am in hearty support of the bill.

Mr. Speaker, as is stated in the report of the Committee on Government Operations which accompanies H.R. 11211, this bill is to remedy an inequity which has resulted from a ruling of the Comptroller General of the United States which has had the effect of cutting off the per diem payments which for a number of years have been made to civilian employees of the Navy Department assigned to duty on the islands which are offshore from the coast of California. These islands, which are presently occupied by important installations engaged in tracking and other associated activities of our Pacific Missile Range, are located about 60 miles from the coast of California. They are rocky, barren, and otherwise uninhabited. In order to recruit personnel it has been necessary to fly them to and from these islands and to furnish them living quarters and messing facilities while they are working there. In May of this year, the Comptroller General decided that the action of the Navy Department in paying these people per diem under the Travel Expense Act of 1949, as amended, was in violation of the law. This decision came about because the Comptroller General concluded that the post of duty of an employee so engaged was, in fact, the island and not a place on the mainland of the United States where the employees customarily emplaned for their flight to the islands.

Since these per diem payments have been made to many individuals over the past few years it was estimated that legal action would have to be commenced to recover some \$400,000 that have been illegally paid out under the erroneous interpretation by the Navy of the provisions of the Travel Expense Act of 1949, as amended. This would have resulted in great hardship to certain individual employees from whom it would have been necessary to recover in some cases as much as \$7,000. Since these payments were received in good faith by all of these employees and were actually considered by them to be a part of the compensation they were entitled to receive for performing work under the conditions described, it seemed to the Committee on Government Operations that it would be highly unfair and inequitable to compel repayment. It was also brought out in the hearings before the subcommittee that the Navy Department would shortly face great difficulty in recruiting personnel for work on these offshore islands unless authority was given to the Navy to pay some allowance in addition to the basic wage rates provided for by statute.

Mr. Speaker, I think that the gentleman from California [Mr. CHARLES TEAGUE] should be commended as the author of this bill for his initiative in pressing this matter before the Committee on Government Operations. His persistence

and effective work in connection with this measure has undoubtedly contributed to the fact that this bill was reported unanimously out of the Executive and Legislative Reorganization Subcommittee as well as receiving unanimous approval of the full Committee on Government Operations. I urge its adoption.

Mr. Speaker, I yield 2 minutes to the author of this bill, the gentleman from California [Mr. TEAGUE].

Mr. TEAGUE of California. Mr. Speaker, I take this time to make myself available for any questions that may be posed.

I would like to express my deep appreciation to the gentleman from California [Mr. HOLIFIELD], to the chairman of the committee, and to all members of the House Committee on Government Operations for their cooperation in the consideration of this bill.

Mr. GROSS. Mr. Speaker, will the gentleman yield?

Mr. TEAGUE of California. I yield to the gentleman from Iowa.

Mr. GROSS. I think the letter from the General Accounting Office is the best enforcement this bill could have, being directly concerned with the matter of payments to personnel and overpayments to personnel.

Mr. TEAGUE of California. Mr. Speaker, I appreciate the gentleman's position.

(Mr. ROOSEVELT (at the request of Mr. TEAGUE of California) was given permission to extend his remarks at this point in the RECORD.)

Mr. ROOSEVELT. Mr. Speaker, this measure is designed to rectify an obvious injustice, and I am happy to join my good friend, the gentleman from California, in urging its favorable consideration. My support for the bill has already been evidenced through the introduction of an identical bill, H.R. 11506, inasmuch as some of the people concerned live within the 26th Congressional District of California.

May I also express my pleasure at the agreement of my colleague, the gentleman from Iowa [Mr. Gross]. It is wonderful to note that on such nonpartisan matters there can be a warm degree of cooperation between those whose districts are effected by this kind of legislation.

(Mr. BELL (at the request of Mr. TEAGUE of California) was granted permission to extend his remarks at this point in the RECORD.)

[Mr. BELL'S remarks will appear hereafter in the Appendix.]

The SPEAKER. The question is on suspending the rules and passing the bill.

The question was taken; and (two-thirds having voted in favor thereof) the rules were suspended and the bill was passed.

The title was amended so as to read: "A bill to provide authority for the payment of certain amounts to offset certain expenses of Federal employees assigned to duty on the California offshore islands, and for other purposes."

PERMITTING THE USE OF STATISTICAL SAMPLING PROCEDURES IN THE EXAMINATION OF VOUCHERS

Mr. ROSENTHAL. Mr. Speaker, I move to suspend the rules and pass the bill (H.R. 10446) to permit the use of statistical sampling procedures in the examination of vouchers.

The Clerk read as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, (a) That, whenever the head of any department or agency of the Government or the Commissioners of the District of Columbia determines that economies will result therefrom, such agency head or the Commissioners may prescribe the use of adequate and effective statistical sampling procedures in the examination of disbursement vouchers for amounts of less than \$100; and no certifying or disbursing officer acting in good faith and in conformity with such procedures shall be held liable with respect to any certification or payment made by him on a voucher which was not subject to specific examination because of the prescribed statistical sampling procedure, provided that such officer and his department or agency have diligently pursued collection action to recover the illegal, improper, or incorrect payment in accordance with procedures prescribed by the Comptroller General.

(b) Nothing contained in this Act shall affect the liability, or authorize the relief, of any payee, beneficiary, or recipient of any illegal, improper, or incorrect payment, or relieve any certifying or disbursing officer, the head of any department or agency of the Government, the Commissioners of the District of Columbia, or the Comptroller General of responsibility to pursue collection action against any such payee, beneficiary, or recipient.

The SPEAKER. Is a second demanded?

Mr. ANDERSON. Mr. Speaker, I demand a second.

Mr. ROSENTHAL. Mr. Speaker, I ask unanimous consent that a second be considered as ordered.

The SPEAKER. Is there objection to the request of the gentleman from New York?

There was no objection.

Mr. ROSENTHAL. Mr. Speaker, I yield myself such time as I may consume.

(Mr. ROSENTHAL asked and was given permission to revise and extend his remarks.)

Mr. ROSENTHAL. Mr. Speaker, H.R. 10446 is a bill to permit the use of statistical sampling procedures in the examination of vouchers. It was recommended to the Congress by the Director of the Bureau of the Budget with the concurrence of the Secretary of the Treasury and the Comptroller General. The bill would alter the method of examining vouchers prior to payment in the executive departments and agencies. At the present time, every voucher, regardless of amount, is examined for its propriety and correctness. Under the bill, only a sample of the vouchers would be examined. The sample, however, would be selected by statistical sampling procedures. This change is justified by the Bureau because of the significant savings that would result.

The bill was supported by the General Accounting Office, the Treasury Depart-

ment, and received favorable comment from representatives of the American Institute of Certified Public Accountants, and the American Statistical Association. The Bureau of the Budget feels that on the basis of experimental studies conducted by the Department of Health, Education, and Welfare and the Department of Agriculture that substantial economies in manpower and dollars could be effected on a governmentwide basis by a sampling of these vouchers.

The Department of Health, Education, and Welfare conducted a study using statistical sampling in the administrative examination of vouchers over a 5-week period, examining about 61,000 vouchers amounting to approximately \$25 million. It was estimated that the savings to this Department if the proposed procedure were utilized would be about \$270,000 annually. A similar study by the Department of Agriculture projected an estimated annual savings of between \$400,000 and \$500,000, if this procedure were adopted. Both of these studies indicated that the risk of loss to the Government would be slight compared to the projected savings.

The bill provides that certifying or disbursing officers acting in good faith and in accordance with approved procedures will not be held liable for an improper payment on a voucher which is not subject to examination under the prescribed sampling system. It will also protect the interest of the Government by making it clear that the payee, beneficiary, or other recipient of an improper payment continues to be liable therefore and the agency concerned has a continuing responsibility to pursue collection action against any such payee of an illegal, improper, or incorrect payment.

The committee adopted two amendments. One amendment would limit the sampling techniques to vouchers in amounts below \$100. All vouchers above that amount would continue to be examined. We felt this precaution was justified and would still not reduce the effectiveness of the plan inasmuch as the great majority of vouchers drawn fall below this amount, and \$100 appears to be the cutoff point where savings become practical.

The second amendment was offered by the General Accounting Office and would condition the relief from liability of certifying or disbursing officers by the Comptroller General upon their diligent pursuit of collection action against an illegal payee. This would militate against any lethargy in attempting to recover funds improperly paid.

We recognize that sampling is rather new in the field of public accounting and obviously some risks are involved. Private business, however, is using this tool more and more and it is becoming standard procedure with some large corporations. The accounting and statistical experts who provided us with information were satisfied that sampling would be both practical and economical for the Government.

Although every agency has special problems and may use different techniques, the Comptroller General will lay

down definite standards and guidelines for all sampling procedures. This committee will likewise maintain a watchful eye and make periodic checks to see if the law is operating satisfactorily and produces the results we anticipate.

This bill was reported unanimously by the Committee on Government Operations as a device to further the modernization of procedures and produce economies in our governmental colossus.

Mr. ANDERSON. Mr. Speaker, I yield myself 3 minutes.

Mr. Speaker, I rise in enthusiastic support of this legislation. I think this bill can in fact turn out to be one of the most useful and productive bills that have been reported out of the Committee on Government Operations during this session of Congress.

I think the gentleman from New York has very adequately explained the purpose of this legislation. There are merely one or two comments I should like to make in addition to what he has already stated.

The first of these is this. When we speak of statistical sampling we refer, of course, to the manner in which the vouchers will be examined prior to payment. I should like to emphasize that we are not thinking of a mere random and haphazard system of sampling. This is a scientific system. It is not something that will be gone at haphazardly. The phrase "statistical sampling" does have a well-defined meaning in accounting circles. The committee listened to testimony by the American Institute of Certified Public Accountants to this effect.

My second point is that the statistical sampling that would be permitted under this legislation will arise as the result of standards and procedures that will be set up by the General Accounting Office. They will have to approve the particular method of statistical sampling that is used by any agency of the executive branch. They, of course, as the gentleman from New York has stated, have appeared in support of this legislation.

I think the gentleman referred to the fact that in some of the preliminary work that was done on this bill prior to its consideration by the committee, the Department of Health, Education, and Welfare actually undertook the examination of some 60,000 vouchers. I think it is interesting to note that from that examination it was demonstrated that less than 6 percent of the dollar amount represented by these vouchers consisted of vouchers for amounts of less than \$100 and, of course, these are the only vouchers that can be examined under the terms of this legislation. Vouchers for services and supplies or travel where the amount is more than \$100 must continue to be examined on an individual basis. It is also interesting to note that out of the total sum of some \$25 million accounted for in this total of 60,000 vouchers, there was about \$85,000 in mistakes. In other words an examination of these 60,000 vouchers disclosed that some \$85,000 in erroneous or illegal payments had been made. But the vouchers of under \$100 represented only 7 percent of the errors,

or out of the total sum of \$85,000 the mistakes traced to the particular category of vouchers of under \$100 cash amounted to only \$5,600. Yet it was costing something like \$34,000 of the taxpayers' money to examine individually all of these vouchers of under \$100. It obviously does not make much sense to spend \$34,000 to recover \$5,600 in erroneous payments. I repeat, I think this bill can result in some very worthwhile savings to the taxpayers of this country.

One of the agencies or one of the departments of Government, the Department of Agriculture, estimated that annual savings of perhaps as much as \$400,000 or \$500,000 a year could accrue from a consistent use of statistical sampling in the audit and examination of vouchers originating in that Department.

I think the Department of Health, Education, and Welfare expressed the belief that by the use of statistical sampling they might achieve annual savings of around \$268,000.

One of the things I think the Committee on Government Operations could do, and I hope it will do, is to follow up this legislation and make sure that this money is really being saved and that when people are taken off the jobs of examining each of these vouchers on an individual detailed basis that this is reflected in some actual savings in payroll of that particular department or agency.

I see the chairman of the Committee on Government Operations, the gentleman from Illinois [Mr. DAWSON], sitting on the other side of the aisle and nodding in approval. I take that to mean he agrees that one of the jobs of this committee is, in addition to reporting out this legislation, to follow up and making sure that we do achieve the kind of savings that we have been talking about in presenting this matter before the House today.

(Mr. ANDERSON asked and was given permission to revise and extend his remarks.)

The SPEAKER. The question is on the motion of the gentleman from New York [Mr. ROSENTHAL] that the House suspend the rules and pass the bill H.R. 10446, as amended.

The question was taken; and (two-thirds having voted in favor thereof) the rules were suspended and the bill, as amended, was passed.

A motion to reconsider was laid on the table.

TO CHARTER BACK BY ACT OF CONGRESS THE PACIFIC TROPICAL BOTANICAL GARDEN

Mr. FORRESTER. Mr. Speaker, I move to suspend the rules and pass the bill (S. 1991) to charter by Act of Congress the Pacific Tropical Botanical Garden, with amendments.

The Clerk read the bill, as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

CREATION OF THE CORPORATION

SECTION 1. The following persons: Henry Francis duPont, Winterthur, Delaware; Deane Waldo Malott, Ithaca, New York; Horace Marden Albright, Los Angeles, Calif-

ornia; Robert Allerton, Kauai, Hawaii; and Paul Bigelow Sears, New Haven, Connecticut; and their successors, are hereby created and declared to be a body corporate by the name of Pacific Tropical Botanical Garden (hereinafter referred to as the "corporation") and by such name shall be known and have perpetual succession and the powers, limitations, and restrictions herein contained.

COMPLETION OF ORGANIZATION

SEC. 2. The persons named in section 1 shall be the incorporators of the corporation and members of the initial board of trustees and are authorized to complete the organization of the corporation by the selection of other trustees and officers, the adoption of bylaws, not inconsistent with this Act, and the doing of such other acts necessary to carry into effect the provisions of this Act.

OBJECTS AND PURPOSES OF CORPORATION

SEC. 3. The objects and purposes of the corporation shall be—

(a) to establish, develop, operate, and maintain for the benefit of the people of the United States an educational and scientific center in the form of a tropical botanical garden or gardens, together with such facilities as libraries, herbaria, laboratories, and museums which are appropriate and necessary for encouraging and conducting research in basic and applied tropical botany;

(b) to foster and encourage fundamental research with respect to tropical plant life and to encourage research and study of the uses of tropical flora in agriculture, forestry, horticulture, medicine, and other sciences;

(c) to disseminate through publications and other media the knowledge acquired at the gardens relative to basic and applied tropical botany;

(d) to collect and cultivate tropical flora of every nature and origin and to preserve for the people of the United States species of tropical plant life threatened with extinction;

(e) to provide a beneficial facility which will contribute to the education, instruction, and recreation of the people of the United States.

POWERS OF CORPORATION

SEC. 4. The corporation shall have the following powers:

(a) to sue and be sued, and to complain and defend in any court of competent jurisdiction;

(b) to adopt, use, and alter a corporate seal;

(c) to choose such trustees, officers, managers, agents, and employees as the activities of the corporation may require;

(d) to adopt, amend, and alter bylaws, not inconsistent with the laws of the United States of America or of any State in which the corporation is to operate, or of the District of Columbia, for the management of its property and the regulation of its affairs;

(e) to make contracts;

(f) to take and hold by lease, gift, purchase, grant, devise, or bequest, or by any other method, any property, real, personal, or mixed, necessary or proper for attaining the objects and carrying into effect the purposes of the corporation, subject, however, to applicable provisions of law of any State or the District of Columbia (1) governing the amount or kind of such property which may be held by, or (2) otherwise limiting or controlling the ownership or any such property by a corporation operating in such State or the District of Columbia;

(g) to transfer, convey, lease, sublease, mortgage, encumber, and otherwise alienate real, personal, or mixed property; and

(h) to borrow money for the purposes of the corporation, issue bonds or other evidences of indebtedness therefor, and secure the same by mortgage, deed of trust, pledge,

or otherwise, subject in every case to all applicable provisions of the Federal and State laws or to the laws of the District of Columbia; and

(1) to do any and all acts and things necessary and proper to carry out the objects and purposes of the corporation.

BOARD OF TRUSTEES

SEC. 5. (a) Upon enactment of this Act, the trustees of the corporation may select additional persons to serve as members of the board of trustees. The total number of trustees shall not exceed fifteen. The incorporators of the corporation shall each serve on the board of trustees for a term of at least three years.

(b) Except for the foregoing provision, the board of trustees of the corporation shall be selected in such manner and shall serve for such time as may be prescribed in the bylaws of the corporation.

(c) The board of trustees shall be the managing body of the corporation and shall have such powers, duties, and responsibilities as may be prescribed in the bylaws of the corporation.

OFFICERS

SEC. 6. (a) The officers of the corporation shall be a president, one or more vice presidents, a secretary, a treasurer, and such other officers as may be authorized by the bylaws of the corporation.

(b) The officers of the corporation shall be elected in such manner and for such terms and with such duties as may be prescribed in the bylaws of the corporation.

PRINCIPAL CORPORATE OFFICE AND TERRITORIAL SCOPE OF CORPORATE ACTIVITIES; RESIDENT AGENT

SEC. 7. (a) The corporation initially shall have its principal office in the District of Columbia and later at such place as may be determined by the board of trustees. The corporation shall have the right to conduct its activities in the United States and elsewhere but shall establish a tropical botanical garden or gardens only in the United States.

(b) The corporation shall maintain in the District of Columbia at all times a designated agent authorized to accept service of process for the corporation and notice to or service upon such agent, or mailed to the business address of such agent, shall be deemed notice to or service upon the corporation.

MEMBERSHIP; VOTING RIGHTS

SEC. 8. (a) Eligibility for membership in the corporation and the rights and privileges of members shall, except as provided in this Act, be determined as the constitution and bylaws of the corporation may provide.

(b) Each member of the corporation, other than honorary and associate members, shall have the right to one vote on each matter submitted to a vote at all meetings of the members of the corporation.

LIABILITY FOR ACTS OF OFFICERS AND AGENTS

SEC. 9. The corporation shall be liable for the acts of its officers and agents when acting within the scope of their authority.

AUDIT OF FINANCIAL TRANSACTIONS; REPORT TO CONGRESS

SEC. 10. (a) The accounts of the corporation shall be audited annually in accordance with generally accepted auditing standards by independent certified public accountants or independent licensed public accountants, certified or licensed by a regulatory authority of a State or other political subdivision of the United States. The audit shall be conducted at the place or places where the accounts of the corporation are normally kept. All books, accounts, financial records, reports, files, and all other papers, things or property belonging to or in use by the corporation and necessary to facilitate the audit shall be made available to the person or persons conducting the audit; and full facilities for ver-

fying transactions with the balances or securities held by depositories, fiscal agents, and custodians shall be afforded to such person or persons.

(b) A report of such audit shall be made by the corporation to the Congress not later than six months following the close of the fiscal year for which the audit is made. The report shall set forth the scope of the audit and include such statements, together with the independent auditor's opinion of those statements, as are necessary to present fairly the corporation's assets and liabilities, surplus or deficit with an analysis of the changes therein during the year, supplemented in reasonable detail by a statement of the corporation's income and expenses during the year including (1) the results of any trading, manufacturing, publishing, or other commercial-type endeavor carried on by the corporation, and (2) a schedule of all contracts requiring payments in excess of \$10,000 and any payments of compensation, salaries, or fees at a rate in excess of \$10,000 per annum. The report shall not be printed as a public document.

BOOKS AND RECORDS; INSPECTION

SEC. 11. The corporation shall keep correct and complete books and records of account. It shall also keep minutes of the proceedings of its board of trustees, and committees having any of the authority of the board of trustees. The corporation shall also keep at its principal office a record of the names and addresses of its members entitled to vote.

All books and records of the corporation shall be open for inspection by any member of the corporation or his agent or attorney for any proper purpose at any reasonable time.

DIVIDENDS

SEC. 12. The corporation shall have no power to issue shares of stock or to declare or pay dividends.

USE OF INCOME; LOANS TO OFFICERS, TRUSTEES, OR EMPLOYEES

SEC. 13. (a) No part of the income or assets of the corporation shall inure to any member, officer, or trustee, or be distributable to any such person during the life of the corporation or upon dissolution or final liquidation. Nothing in this subsection, however, shall be construed to prevent the payment of reasonable compensation to officers of the corporation in amounts approved by the board of trustees of the corporation.

(b) The corporation shall not make loans to its officers, trustees, or employees. Any trustee who votes for or assents to the making of a loan to an officer, trustee, or employee of the corporation, and any officer who participates in the making of such loan, shall be jointly and severally liable to the corporation for the amount of such loan until the repayment thereof.

USES OF ASSETS ON DISSOLUTION OR LIQUIDATION

SEC. 14. Upon dissolution or final liquidation of the corporation, all assets remaining after the corporation's liabilities have been satisfied, shall be distributed to the United States Government, to be administered by the Secretary of the Interior under the Act of August 25, 1916 (39 Stat. 585; 16 U.S.C. 1 et seq.), as amended and supplemented, or to a State or local government to be used for a public purpose, in accordance with the determination of the board of trustees, consistent with the purposes of the corporation, and in compliance with the charter and by-laws of the corporation and Federal and State laws.

NONPOLITICAL NATURE OF CORPORATION

SEC. 15. The corporation, and its officers and trustees as such, shall not contribute to or otherwise support or assist any political party or candidate for elective public office.

EXCLUSIVE USE OF NAME

SEC. 16. The corporation shall have the sole and exclusive right to use and to authorize the use of the name "Pacific Tropical Botanical Garden."

RESERVATION OF RIGHT TO AMEND OR REPEAL CHARTER

SEC. 17. The right to alter, amend, or repeal this Act is expressly reserved to the Congress.

The SPEAKER. Is a second demanded?

Mr. GROSS. Mr. Speaker, I demand a second.

The SPEAKER. Without objection, a second will be considered as ordered.

There was no objection.

Mr. FORRESTER. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, this is a bill which has come to us from the Senate side. It has for its purpose the incorporation of the National Tropical Botanical Garden. The bill is for the purpose of establishing in the State of Hawaii a tropical and semitropical botanical garden to be established and operated through private gifts and without the need for appropriation or expenditure of Federal funds.

The Architect of the Capitol, the Secretary of Agriculture, and the Department of the Interior have indicated that they have no objection to this legislation and that it is acceptable to them.

When this bill came before the House Committee on the Judiciary, the committee took note of a suggestion on the part of the Secretary of Agriculture that there was another botanical garden located in the State of Florida, and possibly others elsewhere, and we, therefore, doubted the wisdom of using the word "National." Consequently, the bill has been amended so that instead of it being the National Tropical Botanical Garden, it is to be the Pacific Tropical Botanical Garden.

Mr. GROSS. Mr. Speaker, I yield myself such time as I may consume.

(Mr. GROSS asked and was given permission to revise and extend his remarks.)

Mr. GROSS. Mr. Speaker, I should like to ask the gentleman from Georgia a question. Why is a Federal charter necessary for the establishment of a botanical garden in the State of Hawaii?

Mr. FORRESTER. The incorporators believe, and the Judiciary Committee agreed with them, that it is on account of the fine purposes involved.

Mr. GROSS. On account of what? I could not hear the gentleman.

Mr. FORRESTER. On account of the fine purposes.

Mr. GROSS. The fine purposes?

Mr. FORRESTER. Yes. They are going to develop tropical, semitropical, and other plants and herbs and so forth to benefit agriculture and other branches of industry in this country. They felt it ought to have the recommendation of and the stamp of approval of the Congress of the United States.

Mr. GROSS. The gentleman mentioned agriculture. Is the Hawaiian botanical garden going to make a contribution to agriculture?

Mr. FORRESTER. They say it will. They say they are going to produce a lot

of herbs and plants that are edible. I believe they will. That is one of the laudable purposes.

Mr. GROSS. I still have not heard any really good reason for a Federal charter for a botanical garden in Hawaii, or anywhere else, for that matter. Perhaps someone can enlighten me.

Mr. MATHIAS. Mr. Speaker, will the gentleman from Georgia yield to me?

Mr. GROSS. I happen to have the time. I will yield to the gentleman from Maryland, if he can make a contribution to this question.

Mr. MATHIAS. I should like to point out that there was a helpful letter before the committee, from the Department of Interior, which listed three specific practical benefits which would come from the establishment of this corporation. These are not esthetic, and do not mean merely looking at orchids, or something of that kind. I will say that I might share the misgivings of the gentleman from Iowa if we were limited to only esthetic aspects of tropical plantlife.

As appears in the committee report, on page 6, the Department of Interior feels:

First, the increased knowledge of tropical plantlife will enable the people of the tropics to undertake land-use planning in terms of ecological relationships and on a much more sophisticated level than is possible with present knowledge. The need for prudent management and use of the land and plant resources of the tropical regions of the world becomes greater with the increasing population in these regions.

Second, tropical plants are an important source of the world's carbohydrate production and plant carbohydrates will help meet food requirements of increasing populations in other parts of the world as well as in the tropical regions. The production of tropical plant products will also aid the economic development needed in the tropical regions.

Third, the research and educational activities of the tropical botanical garden will help to alleviate the current shortage of trained experts in the fields of tropical botany, horticulture, and agriculture. These experts are urgently needed to cope with the problems mentioned above.

Mr. GROSS. Can the gentleman give me one good reason why all this cannot be done without a Federal charter?

Mr. MATSUNAGA. Mr. Speaker, will the gentleman from Iowa yield?

Mr. GROSS. I yield to the gentleman from Hawaii.

Mr. MATSUNAGA. In answer to the question of the gentleman from Iowa, I point out that the reason why we are asking for the congressional charter is that the corporation will serve a national purpose. Its purposes will be for the benefit of all the people of the United States, not merely the people of Hawaii, if the garden is established in Hawaii.

Mr. GROSS. May I ask the gentleman this question: Is there any reason why it cannot serve a national purpose without a Federal charter?

Mr. MATSUNAGA. A Federal charter is required for the reason that we are seeking to have this established and operated by private gifts and endowments and, in order to get private gifts and endowments, we would have a better

88TH CONGRESS
2D SESSION

H. R. 10446

IN THE SENATE OF THE UNITED STATES

AUGUST 4, 1964

Read twice and referred to the Committee on Government Operations

AN ACT

To permit the use of statistical sampling procedures in the examination of vouchers.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 (a) That, whenever the head of any department or agency
4 of the Government or the Commissioners of the District of
5 Columbia determines that economies will result therefrom,
6 such agency head or the Commissioners may prescribe the
7 use of adequate and effective statistical sampling procedures
8 in the examination of disbursement vouchers for amounts
9 of less than \$100; and no certifying or disbursing officer
10 acting in good faith and in conformity with such procedures
11 shall be held liable with respect to any certification or pay-

88TH CONGRESS
2D SESSION

H. R. 10446

AN ACT

To permit the use of statistical sampling procedures in the examination of vouchers.

August 4, 1964

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Government Operations

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

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Washington, D. C. 20250

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HIGHLIGHTS: House passed housing bill. Senate committee reported Appalachia bill.
Senate debated foreign aid bill.

SENATE

1. APPALACHIA. The Public Works Committee reported with amendment S. 2782, to provide public works and economic development programs and the planning and coordination needed to assist in the development of the Appalachian region (S. Rept. 1383). p. 18776
2. FOREIGN AID. Continued debate on H. R. 11380, the foreign-aid authorization bill. pp. 18819-25, 18839-72, 18899
3. SUGAR. Sen. Williams, Del., claimed that sugar subsidies "go to the big corporate-type farmers" and criticized the program from this standpoint. pp. 18779-80

4. MEAT IMPORTS. Sen. Javits asked that the Administration state its policy on the meat-import bill and stated that "it is inconceivable to me that the State Department and the administration could have allowed the bill to roll through, with the principal opposition coming from me on the Republican side and without any help from the administration so far as I knew." pp. 18811-2
5. TOBACCO. Passed as reported H. J. Res. 1026, to extend the time by which a lease transferring a tobacco acreage allotment may be filed. p. 18831
6. FOOD MARKETING. Sen. Dirksen inserted an article praising the creating of the Food Marketing Commission and urging the Commission to consider "the process by which these great retail marketing groups are coming to control the production of particular commodities by marketing practices that play off one producer against others." pp. 18836-7
7. SOIL SURVEY. Received a letter from Interior reporting a soil survey of Broadview Water District, Calif. p. 18775
8. RECREATION. Sen. Douglas "set the record straight" on the cooperative work between the State and Federal Governments in the establishment of the Indiana Dunes State Park. p. 18782
9. STATE, JUSTICE, COMMERCE, JUDICIARY APPROPRIATION BILL, 1965. Passed as reported this bill, H. R. 11134. Senate conferees were appointed. pp. 18787-9
10. PERSONNEL. Sen. Johnston urged that Government employees "be encouraged to participate, insofar as the law permits, in political activity." p. 18785
11. HOLIDAY. Sen. Keating inserted his statement supporting S. 108, to make Columbus Day a legal holiday. p. 18810
12. COFFEE. Sen. Javits praised the work of the Coffee Council in establishing higher levels of world coffee exports for next year and inserted an article from the Wall Street Journal pointing out how this favors the consumer nations. pp. 18813-4
Agreed to the conference report on H. R. 8864, to implement the International Coffee Agreement. p. 18816
13. RESEARCH. Agreed to the conference report on H. R. 4364, to provide for the free entry of mass spectrometers for Oregon State University and Wayne State University. p. 18817
14. EXPENDITURES. Sen. McGovern inserted a list of Federal expenditures in S. Dak. pp. 18837-9
15. ELECTRIFICATION. Sen. Morse inserted a letter from Rep. Moss praising his stand on the west coast intertie arrangement. pp. 18873-4
16. CLAIMS. The Foreign Relations Committee reported with amendment H. R. 6910, to provide for the settlement of claims against the U. S. by members of the uniformed services and civilian officers and employees of the U. S. for damage to, or loss of, personal property incident to their service (S. Rept. 1423). p. 18775
17. ACCOUNTING. The Government Operations Committee reported without amendment H. R. 10446, to permit the use of statistical sampling procedures in the examination of vouchers (S. Rept. 1425). p. 18776

Calendar No. 1360

88TH CONGRESS
2d Session {

SENATE {

REPORT
No. 1425

PERMITTING THE USE OF STATISTICAL SAMPLING PROCEDURES IN THE EXAMINATION OF VOUCHERS

AUGUST 13, 1964.—Ordered to be printed

Mr. McCLELLAN, from the Committee on Government Operations,
submitted the following

R E P O R T

[To accompany H.R. 10446]

The Committee on Government Operations, to whom was referred the bill (H.R. 10446) to permit the use of statistical sampling procedures in the examination of vouchers, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE

H.R. 10446 would authorize department and agency heads to prescribe the use of statistical sampling procedures in the examination of disbursing vouchers when it is determined that the accounting system and related internal controls are adequate and the economies will result from the adoption of such a procedure.

BACKGROUND

In a letter dated March 3, 1964, transmitting this proposal to the President pro tempore of the Senate, the Director of the Bureau of the Budget stated that:

This proposal is an outgrowth of the administration's continuing program to improve financial management practices in the Federal Government. It is based upon studies made by the Department of Agriculture and the Department of Health, Education, and Welfare. The results of such studies were reviewed by the General Accounting Office, the Treasury Department, and the Bureau of the Budget in conjunction with representatives of other major agencies.

The results of the studies by the Departments of Agriculture and Health, Education, and Welfare clearly demonstrated that the benefits derived from a detailed examination of each voucher before payment were not commensurate with the costs incurred. While significant improvements have been made in agency accounting systems and related areas of internal control during the past 15 years, very little change has been made in the voucher examination function. The accounting and internal control improvements have a direct and significant bearing on the need for conducting a detailed examination of every voucher. For example, agency systems, independent of the voucher examination process, provide a means of determining that funds are appropriately obligated; services and materials are actually received and that quality, quantity, and price are in accord with the obligating documents. Thus the voucher examination process, properly constituted, should be an element of the agency internal control system designed to assist in the identification of faulty or improperly administered procedures.

The costly and frequently unnecessary voucher review processes are inherent in present statutes which hold, under certain conditions, certifying or disbursing officers responsible for incorrect payments, notwithstanding the adequacy of the accounting system and related controls. The Comptroller General has ruled that legislation is required in order to authorize the use of statistical sampling techniques. If this proposal is adopted, statistical sampling procedures would be established in conformity with principles, standards, and related requirements prescribed by the Comptroller General as provided in section 112 of the Accounting and Auditing Act of 1950, 31 U.S.C. 66.

The report of the House Committee on Government Operations on H.R. 10446 (H. Rept. 1643, 88th Cong.) contains the following explanation and background in support of the bill:

In recent years sampling techniques have been applied more and more to accounting. Though not widespread yet, their use has proved to be both economical and practical in certain aspects of financial management in both government and private industry. Methods are constantly being refined and new applications discovered.

This legislation has been proposed as a way to reduce costs in the area of internal financial control by the departments and agencies of the Federal Government. Under existing procedures, vouchers leading to the disbursement of funds are individually examined by designated employees prior to being certified for payment. On a Government-wide basis the number of vouchers may run into hundreds of thousands or possibly millions and the cost of the operation is very high. The purpose of the examination, however, is the sound one of assuring in advance of payment that the amounts claimed are correct, that the goods or services have been received, and that payment is in accord with the laws, regulations, decisions, and administrative requirements. It helps protect the Government from negligent or willful

acts that may result in improper payments. Certifying officers are held responsible for the existence and correctness of the facts stated on the voucher and for the legality of the proposed payment, and they are accountable for any improper payment made on the basis of their certification. It is only natural that they would satisfy themselves as to these matters before making the certification. They are, indeed, virtually compelled to do this by current statutes.

For some time various agencies have concluded that some sampling would be desirable but in a decision dated July 9, 1963 (B-150512), the Comptroller General ruled that under existing law the use of a statistical sampling plan for the examination of vouchers prior to and as a preparation for certification could not be sanctioned. The language of this bill was developed to overcome that decision.

The principal justification for instituting sampling procedures arises from special studies conducted by the Department of Agriculture and the Department of Health, Education, and Welfare. Both clearly demonstrated that the benefits derived from the detailed examination of individual vouchers were not commensurate with the cost incurred. In other words, the dollar amount of the errors discovered was often less than the total cost of the examination. The studies revealed that by using statistical sampling techniques on certain classes of vouchers significant reductions in examining costs could be achieved. The Department of Agriculture indicated a reduction in annual examining costs ranging from \$400,000 to \$500,000. The Department of Health, Education, and Welfare estimated annual net savings of \$268,000.

In the HEW study all vouchers processed during a 5-week period were included. There was a total number of 60,929 vouchers involving more than \$25 million. Approximately 40,000, or two-thirds of the vouchers, were in amounts under \$100. But these involved only 6 percent of the dollar amount of all vouchers. Errors discovered in the examination of all vouchers totaled \$85,005 (out of \$25 million). Of these errors only \$5,601 were found among vouchers under \$100. An estimate was made of the cost of examining the vouchers in which the errors were found. This amounted to \$51,789. Of this amount it cost approximately \$34,000 to discover the errors totaling \$5,601 in the vouchers under \$100.

The findings of the HEW study may be summarized as follows: The money value of both vouchers processed and errors discovered is heavily concentrated in the larger size vouchers, although these vouchers are only a small percentage of all vouchers processed. In contrast, vouchers under \$100 represented 66 percent of the total number of vouchers but only 6 percent of the total money involved and 7 percent of the money involved in errors. Examination of vouchers below \$100 is uneconomical because the cost of examination far outweighs the amounts recovered in that category. Examination of the higher amounts is practical and the results in recoveries justified the cost.

Not all agencies may produce the results of the HEW study but there is reason to believe a relative similarity in pattern exists throughout the Government.

ANALYSIS

The House report (H. Rept. 1643) contains the following analysis of the bill as amended in the House.

H.R. 10446 as amended provides as follows: Section (a) authorizes department and agency heads to institute adequate and effective statistical sampling procedures in the examination of disbursement vouchers. This authority is required because the Comptroller General ruled that under existing law sampling methods could not be used. The committee amendment would limit the vouchers subject to sampling to those under \$100 thereby continuing the practice of examining all vouchers over that amount. Certifying officers would be relieved of liability for the improper certification or payment of vouchers that may not have been examined because of the statistical sampling procedure. This relief, however, is conditioned on the certifying officer's diligent efforts to recover any payments illegally, improperly, or incorrectly made. Such relief would be only fair and in the view of the Budget Bureau "would establish an environment within which tangible benefits may be achieved." But the proviso should militate against laxity if an improper payment is made and every practicable effort to recover the funds is put forth.

Section (b) would make clear the intent of the legislation that a recipient of an improper payment remains liable therefor and that this bill authorizes no relief for such recipient. Neither does it authorize relief from the responsibility that the appropriate governmental officers have of pursuing collection action against an improper recipient.

HOUSE AMENDMENTS

As noted above the bill was amended in the House to limit the application of sampling procedures to those vouchers under \$100, thereby continuing the current practice of examining all vouchers over that amount. The House also adopted an amendment recommended by the General Accounting Office to condition the relief from liability granted to certifying or disbursing officers with respect to any certification or payment made by him on a voucher which was not subject to specific examination, because of the prescribed statistical sampling procedure, upon the diligent pursuit of collection action. Thus in order to qualify for relief from liability (if the payment in question otherwise falls within the purview of the bill) the officer involved and his department or agency must actually and in good faith diligently pursue collection action in accordance with existing procedures prescribed by the Comptroller General.

PROPOSED MINIMUM REQUIREMENTS FOR AN ADEQUATE STATISTICAL SAMPLING SYSTEM

The General Accounting Office has furnished the committee with the following proposed minimum requirements for an adequate statistical sampling system:

A sampling plan must be based on sound probability principles and concepts, clearly outlined in written instructions for guidance of personnel.

The plan must be predicated on economic and feasibility studies of the situation to which the plan applies and these studies must be sufficiently documented to permit review and evaluation of its characteristics.

Controls must be established to assure adherence to the established plan. Vouchers actually examined should carry evidence of the examination.

A monetary limit must be established above which all vouchers will be examined. The limit should be based on the economic and feasibility studies. [H.R. 10446, as amended, provides for the examination of all vouchers of \$100 or more.]

The plan must be supervised by personnel having adequate knowledge of statistical sampling techniques as applied to auditing and of the essential features of the plan. This does not necessarily require the services of a trained statistician.

Recurring reports must be prepared for top management presenting the results of the sampling audit.

ESTIMATE OF SAVINGS

The Bureau of the Budget advises that the use of statistical sampling in the examination of vouchers will permit more effective manpower utilization and a significant reduction in examining costs. Studies in Agriculture indicate a reduction in annual examining costs ranging from \$400,000 to \$500,000 and in Health, Education, and Welfare an estimated annual net saving of \$268,000. While it is not feasible to estimate the ultimate savings that would result from the adoption of such a procedure Government wide, it is reasonable to conclude that it would be substantial.

AGENCY COMMENTS

As noted above, this bill was recommended by the Bureau of the Budget based on studies conducted by the Departments of Agriculture, and Health, Education, and Welfare. Extracts of the letter transmitting the proposal to the Senate from the Bureau are reprinted above and the reports from the two Departments conducting the studies appear below, along with comments on the measure from the Comptroller General. [These reports are on S. 2650, companion measure to H.R. 10446.]

6. STATISTICAL SAMPLING IN EXAMINATION OF VOUCHERS

DEPARTMENT OF AGRICULTURE,
Washington, D.C., April 28, 1964.

Hon. JOHN L. McCLELLAN,
Chairman, Committee on Government Operations,
U.S. Senate.

DEAR MR. CHAIRMAN: This is in reply to your request of March 19, 1964, for a report on S. 2650, a bill to permit the use of statistical sampling procedures in the examination of vouchers.

This Department strongly recommends that the bill be enacted.

The bill provides authority for a department or agency head to prescribe the use of statistical sampling procedures in the prepayment examination of disbursement vouchers when he determines that economies will result therefrom.

A study conducted by this Department in 1962 revealed that the present practice of complete examination of all vouchers requires more manpower and results in greater costs than are justified by the net monetary savings from amounts disallowed from the vouchers as a result of the examination. As part of this study, a statistical sampling plan was designed and tested under actual voucher examination operations during July and August of 1962. Statistical and cost data obtained from this pilot test were analyzed to evaluate the effectiveness of the use of the statistical sampling method in relation to the results obtained from complete examination of every voucher. This preliminary study and pilot test indicate that, through the use of statistical sampling procedures, voucher examination costs in the Department of Agriculture may be reduced as much as \$400,000 to \$500,000 annually without losing the intangible benefits and deterrent advantages of examining every voucher.

A proposal to use statistical sampling procedures in the examination of vouchers was submitted by the Department of Agriculture to the Comptroller General for approval in December 1962. However, the Comptroller General advised that the use of statistical sampling procedures could not be sanctioned under existing law. Enactment of S. 2650 would remove this barrier.

The Bureau of the Budget advises that there is no objection to the presentation of this report from the standpoint of the administration's program.

Sincerely yours,

ORVILLE L. FREEMAN, Secretary.

DEPARTMENT OF
HEALTH, EDUCATION, AND WELFARE,
June 1, 1964.

Hon. JOHN L. McCLELLAN,
Chairman, Committee on Government Operations,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This letter is in response to your request of March 19, 1964, for a report on S. 2650, a bill to permit the use of statistical sampling procedures in the examination of vouchers.

The bill would provide that the head of any department or agency may, when he determines that economies will result, prescribe the use of adequate and effective statistical sampling procedures in examining

disbursement vouchers. It further provides that certifying officers acting in good faith and in conformity with accepted procedures will not be held liable for certification of vouchers not examined in the sampling procedure.

This Department made a thorough and exhaustive study of statistical sampling in voucher examination. The results of that study and our conclusion closely parallel the views expressed in the letter of March 3, 1964, from Mr. Kermit Gordon, Director of the Budget Bureau, which accompanied the draft legislation when it was proposed.

We believe there will be two primary benefits, (1) a saving of money and (2) a decrease in the length of time required to process payments to vendors. For these reasons and others given in Mr. Gordon's letter, we recommend that S. 2650 be enacted.

We are advised by the Bureau of the Budget that there is no objection to the presentation of this report from the standpoint of the administration's program.

Sincerely,

ANTHONY J. CELEBREZZE, *Secretary.*

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., May 1, 1964.

B-150512.

Hon. JOHN L. McCLELLAN,
Chairman, Committee on Government Operations,
U.S. Senate.

DEAR MR. CHAIRMAN: Your letter of March 19, 1964, acknowledged March 23, transmitted a copy of S. 2650, entitled "A bill to permit the use of statistical sampling procedures in the examination of vouchers," and requested our views and recommendations thereon.

Generally, the purpose of the bill is to authorize the heads of Federal departments and agencies and the Commissioners of the District of Columbia to prescribe the use of statistical sampling procedures in the precertification or prepayment examination of disbursement vouchers by certifying or disbursing officers in their departments or agencies whenever it is determined that the accounting system and related internal controls are adequate to protect the Government and that economies will result from the adoption of such procedures.

The use of statistical sampling procedures in the precertification or prepayment examination of disbursement vouchers has been under consideration for some time. Several departments have made a study of the advantages to be gained by such procedures. Under date of December 19, 1962, the Secretary of Agriculture requested the consideration and approval of the Comptroller General of a proposal to adopt such procedures in his Department. By decision of July 9, 1963, B-150512, published as 43 Comp. Gen. — (copy attached), we held that under existing law we could not sanction the use of a statistical sampling plan for the examination of vouchers prior to and as preparation for certification.

Subsequent to our decision, a project was established under the steering committee of the joint financial management improvement program to explore the benefits and advantages of using statistical sampling procedures in the examination of disbursement vouchers

prior to certification or payment and, if such procedures were deemed desirable, to prepare language for proposed legislation to authorize the use thereof. The language of S. 2650 was developed as a result of that project.

The bill authorizes the head of a Government department or agency to prescribe the use of sampling procedures whenever he determines economies would result therefrom. If the bill is enacted, such procedures would constitute part of the accounting system of the department or agency, and hence must conform to the "principles, standards, and related requirements for accounting" prescribed by the Comptroller General of the United States under the authority of section 112 of the Accounting and Auditing Act of 1950, approved September 12, 1950 (ch. 946, 64 Stat. 835, 31 U.S.C. 66). Our staff has begun the development of such "principles, standards, and related requirements" for statistical sampling procedures and we expect to have a draft of tentative principles and standards ready shortly.

We have no basis on which to make an estimate of the potential savings that Government departments and agencies may realize under the procedures authorized by the bill. However, it would appear from the studies made by the Departments of Agriculture and Health, Education, and Welfare that the adoption of adequate and effective statistical sampling procedures should result in a reduction in the cost of the voucher examination functions without losing the deterrent effect of examining every voucher. Hence, we have no objection to the enactment of a bill authorizing the use of adequate and effective statistical sampling procedures in the precertification or prepayment examination of disbursement vouchers.

We have one reservation concerning the bill. As now worded, even though section (b) clearly provides that the payee, beneficiary, or recipient of any illegal, improper, or incorrect payment continues to be liable therefor, and that the certifying or disbursing officer involved, as well as the administrative agency concerned, has a continuing responsibility to pursue collection action against said payee, etc., section (a) would appear to require the relief of any officer who comes within its provisions of all responsibility for the payment before such collection action is taken or, indeed, even if such action is never taken. This is contrary to the principles established by the existing disbursing officers' relief act (sec. 1 of the act of Aug. 11, 1955, ch. 803, 69 Stat. 687, 31 U.S.C. 82a-2), which specifically provides that "relief may be denied in any case in which the Comptroller General or his designee determines that the department, agency, or independent establishment concerned has not diligently pursued collection action in accordance with procedures prescribed by the Comptroller General." Likewise, the existing certifying officers' relief act (sec. 2 of the act of Dec. 29, 1941, ch. 641, 55 Stat. 875, 31 U.S.C. 82c) gives the Comptroller General sufficient discretion in granting relief thereunder to permit the withholding of relief where collection action is not diligently pursued. We perceive no cogent reason why relief under the present bill should be granted regardless of failure to take diligent collection action. Moreover, we believe the authority to withhold relief pending the undertaking of diligent collection action constitutes a salutary inducement to the officers and agencies involved to undertake such action promptly. Therefore, we strongly recommend that the bill be amended to condition the

relief from liability granted thereby upon the diligent pursuit of collection action. This may be accomplished by changing the period at the end of section (a) of the bill to a comma, and adding the following: "Provided, That such officer and his department or agency have diligently pursued collection action to recover the illegal, improper, or incorrect payment in accordance with procedures prescribed by the Comptroller General."

This language, like that of the cited relief statutes, does not require actual successful collection prior to relief from liability. We recognize that in some instances collection may be difficult or impossible. All that is required in order to qualify for relief from liability (if the payment in question otherwise falls within the purview of the bill), is that the officer involved and his department or agency have actually and in good faith diligently pursued collection action in accordance with existing procedures prescribed by the Comptroller General.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.



88TH CONGRESS
2D SESSION

Calendar No. 1360

H. R. 10446

[Report No. 1425]

IN THE SENATE OF THE UNITED STATES

AUGUST 4, 1964

Read twice and referred to the Committee on Government Operations

AUGUST 13, 1964

Reported by Mr. McCLELLAN, without amendment

AN ACT

To permit the use of statistical sampling procedures in the examination of vouchers.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 (a) That, whenever the head of any department or agency
4 of the Government or the Commissioners of the District of
5 Columbia determines that economies will result therefrom,
6 such agency head or the Commissioners may prescribe the
7 use of adequate and effective statistical sampling procedures
8 in the examination of disbursement vouchers for amounts
9 of less than \$100; and no certifying or disbursing officer
10 acting in good faith and in conformity with such procedures
11 shall be held liable with respect to any certification or pay-

1 ment made by him on a voucher which was not subject to
2 specific examination because of the prescribed statistical
3 sampling procedure, provided that such officer and his de-
4 partment or agency have diligently pursued collection action
5 to recover the illegal, improper, or incorrect payment in
6 accordance with procedures prescribed by the Comptroller
7 General.

8 (b) Nothing contained in this Act shall affect the
9 liability, or authorize the relief, of any payee, beneficiary, or
10 recipient of any illegal, improper, or incorrect payment, or
11 relieve any certifying or disbursing officer, the head of any
12 department or agency of the Government, the Commis-
13 sioners of the District of Columbia, or the Comptroller Gen-
14 eral of responsibility to pursue collection action against any
15 such payee, beneficiary, or recipient.

Passed the House of Representatives August 3, 1964.

Attest:

RALPH R. ROBERTS,

Clerk.

88TH CONGRESS
2D SESSION

H. R. 10446

[Report No. 1425]

AN ACT

To permit the use of statistical sampling procedures in the examination of vouchers.

AUGUST 4, 1964

Read twice and referred to the Committee on Government Operations

AUGUST 13, 1964

Reported without amendment

August 14, 1964

11. ADJOURNED until Mon., Aug. 17. p. 191905

HOUSE - Aug. 15

12. STATE, JUSTICE, COMMERCE, JUDICIARY APPROPRIATION BILL, 1965. The "Daily Digest" states that the conferees agreed to file a report on this bill, H. R. 11134. p. D702

SENATE - Aug. 14

13. INDEPENDENT OFFICES APPROPRIATION BILL, 1965. Agreed to the conference report on this bill, H. R. 11296, and concurred in House amendments to two items in disagreement. This bill will now be sent to the President. pp. 18929-34

14. HOUSING. Disagreed to the House amendment to S. 3049, the housing bill. Conferees were appointed. pp. 18980-90

15. POVERTY. Sen. Simpson inserted an article critical of the poverty bill. pp. 18920-1

16. FOREIGN AID. Continued debate on H. R. 11380, the foreign-aid authorization bill. pp. 18935-49, 18954-68, 18993-9, 19001-12

17. NATIONAL PARK. Concurred in the House amendments to S. 16, establishing the Ozark National Rivers, Mo. This bill will now be sent to the President. pp. 18999-19000

Passed without amendment H. R. 946, to authorize the establishment of the Fort Bowie National Historic Site, Ariz. This bill will now be sent to the President. p. 19001

18. ELECTRIFICATION. Concurred in the House amendment to S. 502, to preserve the jurisdiction of the Congress over construction of hydroelectric projects on the Colorado River below Glen Canyon Dam. This bill will now be sent to the President. pp. 19000-1

19. ACCOUNTING. Passed without amendment H. R. 10446, to permit the use of statistical sampling procedures in the examination of vouchers. This bill will now be sent to the President. p. 19014

20. CLAIMS. Passed as reported H. R. 6910, to provide for the settlement of claims against the U. S. by members of the uniformed services and civilian officers and employees of the U. S. for damage to, or loss of, personal property incident to their service. p. 19014

Received a letter from this Department reporting tort claims paid in fiscal year 1964; to Judiciary Committee. p. 18903

21. CONTAINERS. Passed without amendment H. R. 9334, to amend the Standard Container Act of 1928 relating to standards of containers for fruits and vegetables, so as to permit the use of additional standard containers. This bill will now be sent to the President. p. 19015

22. ECONOMICS. Sen. Humphrey inserted his statement supporting S. 2274, to establish a National Economic Conversion Commission. pp. 19018-20

23. HOLIDAY. The Judiciary Committee reported without amendment S. 108, making Columbus Day a legal holiday (S. Rept. 1438). p. 18903

24. VEHICLES. The Commerce Committee reported without amendment H. R. 1341, to re-

quire passenger-carrying motor vehicles purchased for use by the Federal Government to meet certain safety standards (S. Rept. 1440). p. 18903

25. EDUCATION. The Labor and Public Welfare Committee ordered reported (but did not actually report) an original bill, the higher education student assistance bill of 1964. p. D697

SENATE - Aug. 15

26. PUBLIC LANDS. The Interior and Insular Affairs Committee reported with amendments H. R. 8070, to establish a Public Land Law Review Commission to study existing laws and procedures relating to the administration of the public lands of the U. S. (S. Rept. 1444). p. 19108

27. AUDIT. Passed without amendment H. R. 4223, to provide for an audit of accounts of private corporations established under Federal law. This bill will now be sent to the President. p. 19133

28. HOLIDAY. Passed without amendment S. 108, making Columbus Day a legal holiday. p. 19136

29. FOREIGN AID. Continued debate on H. R. 11380, the foreign-aid authorization bill. pp. 19123-8, 19140-5, 19147-50

30. FISH PROTEIN. Sen. Douglas urged approval for sale of high protein fish concentrate. pp. 19116-7

31. PAY. Sen. Johnston inserted the remarks of President Johnson when he signed the pay bill. p. 19151

32. EXPOSITIONS. Passed without amendment S. J. Res. 162, authorizing the President to call upon the States and foreign countries in the International Exposition for southern Calif. p. 19128

ITEMS IN APPENDIX

33. MEAT IMPORTS. Extension of remarks of Rep. Burke opposing the meat-import restriction bill, and stating "the rigid import bill will not help the cattlemen, and at the same time it will adversely affect our farm and industrial exports." pp. A4313-4

34. HOLIDAY. Extension of remarks of Rep. Carey expressing his support for the bill to make Columbus Day a national holiday. pp. A4316-7

35. APPALACHIA; ROADS. Extension of remarks of Rep. Saylor inserting correspondence with the Dept. of Commerce concerning his proposal that all highways in the Appalachia region be constructed on a 90-percent Federal and 10-percent State ration. pp. A4319-20

36. POVERTY. Rep. Edmondson inserted Sargent Shriver's address before Georgetown University in which he discussed the Peace Corps and the proposed poverty program. pp. A4324-6

37. FOOD STAMPS. Rep. Sullivan inserted an article, "Congress Clears Food Stamp Plan for the Needy--Nationwide Program Would Provide Assistance for Any Area Asking It." p. A4330

1909, also prior to the establishment of the Foreign Service retirement system. Mrs. Leute was granted an annuity of \$2,400 by Private Law 85-784 in September 1958. Because of the similarity between that case and the case of Mrs. Loop, the Committee on the Judiciary had itself discharged from consideration of S. 284 and the bill referred to the Committee on Foreign Relations since that committee had taken favorable action on a comparable bill for Mrs. Leute.

The Department of State favors enactment of this bill. In view of all circumstances, recommends its enactment.

~~AMENDMENT TO ACT ESTABLISHING A COMMISSION AND ADVISORY COMMITTEE ON INTERNATIONAL RULES OF JUDICIAL PROCEDURE~~

The bill (H.R. 9436) to amend the act of September 2, 1958, to establish a Commission and Advisory Committee on International Rules of Judicial Procedure, as amended, was considered, ordered to a third reading, read the third time, and passed.

~~EXCERPT FROM REPORT~~

The purpose of the proposed legislation is to extend the life of the Commission and Advisory Committee on International Rules of Judicial Procedure for an additional 3 years to December 31, 1966.

This legislation emanated as an executive communication to the Speaker of the House of Representatives. As originally sent up to the House of Representatives, it called for a 5-year extension. The House of Representatives extended the life of the Commission for 3 years.

The Commission on International Rules of Civil Procedure was created by Public Law 85-906 to study and recommend improvements in rules of procedure relating to service of process, taking of testimony, and proof of foreign documents in litigation having international aspects, primarily to help American individuals and American business and industrial concerns who are parties to such litigation. The Commission consists of nine members—five appointed by the President of the United States, of whom three are private individuals and two are officials of State governments, plus two representatives of the Department of State appointed by the Secretary of State, and two representatives of the Department of Justice appointed by the Attorney General. The Advisory Committee consists of 15 members appointed by the Commission from among lawyers, judges of Federal and State courts, competent to provide advice for the Commission. Under existing law the members of the Commission appointed by the Secretary of State and the Attorney General, and the members of the Advisory Committee all serve without compensation; and only the private members are entitled to reimbursement for travel and subsistence. The other members of the Commission are entitled to a per diem of \$50 when engaged in the actual performance of the duties of the Commission.

The Commission's fourth annual report detailing its work during the year 1962, and recommending amendments to existing law to facilitate procedures in litigation with international aspects, has been printed as House Document No. 88 of the 88th Congress, 1st session. Its recommendations for legislation are incorporated in H.R. 9435.

~~AMENDMENT TO FEDERAL EMPLOYEES' COMPENSATION ACT~~

The bill (H.R. 7662) to amend the Federal Employees' Compensation Act,

as amended, to provide appeal rights to employees of the Canal Zone Government and the Panama Canal Company was considered, ordered to a third reading, read the third time, and passed.

~~EXCERPT FROM REPORT~~

The bill (H.R. 7662) amends the Federal Employees' Compensation Act to provide appeal rights to employees of the Canal Zone Government and the Panama Canal Company. These are the only employees of the Federal Government who do not have the right of appeal to the Employees' Compensation Appeals Board from adverse determinations of their workmen's compensation claims.

~~EXPIRATION DATE OF TERMS OF OFFICE OF MEMBERS OF THE NATIONAL MEDIATION BOARD~~

The Senate proceeded to consider the bill (H.R. 8344) to amend the Railway Labor Act to provide that the terms of office of members of the National Mediation Board shall expire on July 1, which had been reported from the Committee on Labor and Public Welfare, with amendments, on page 1, at the beginning of line 6, to strike out "1964" and insert "1965", and in line 8, after the word "expired.", to insert "Such paragraph is further amended by inserting at the end thereof the following new sentence: 'Upon the expiration of his term of office a member shall continue to serve until his successor is appointed and shall have qualified.'".

The amendments were agreed to.

The amendments were ordered to be engrossed and the bill to be read a third time.

The bill was read the third time, and passed.

~~EXPLANATION OF THE BILL~~

The bill as passed by the House of Representatives provided that the terms of office of all members of the Mediation Board should expire on July 1 rather than February 1, 3 years after the date of their initial appointment. It provided also that the term of office of each member of the Board holding office on January 1, 1964, should be extended for a sufficient period to cause his term of office to expire on July 1 of the calendar year in which it otherwise would have expired.

The language of the House bill contemplated passage in calendar 1963. Since it was not enacted in that year, it was necessary for the committee to recommend an amendment to line 6 on page 1, changing the year "1964" to "1965". Otherwise, the term of office of Leverett Edwards, who was re-appointed and confirmed by the Senate earlier this year, would, under the language of the bill, terminate as of July 1, 1964.

The committee considers it desirable that the term of office of members of the Board should begin on July 2. This would assure that even in his initial year in office, a President would have adequate opportunity to consider the qualifications of a potential appointee. The appointment would not have to be made immediately after his assumption of office.

The committee felt, however, that while it was desirable to move the appointment or reappointment date to a point later in the year, that change, with nothing more, would not prevent a hiatus from developing when, for any one of a number of reasons, the President may not get around to reappointing a member or the Senate may be unable to confirm such reappointment in time to prevent a lapse. This was the reason for

the second committee amendment, which would permit a member to continue to serve until his successor is appointed and confirmed. This amendment would not only give the President time to consider an appointment, it would also permit the appropriate congressional committee to carefully screen the qualifications of an appointee without the pressure that inevitably results from having a lapse in Board membership. The language adopted in the amendment is identical to the last sentence of section 11 of title 49 of the United States Code, establishing the Interstate Commerce Commission. The bill in its present form would correct a situation hampering effective operation of the Board.

Passage of this bill will result in no additional costs to the Federal Government.

~~MARIE JANE LEWIS~~

The Senate proceeded to consider the bill (S. 1717) for the relief of Marie Jane Lewis, which had been reported from the Committee on the Judiciary, with amendments, on page 1, line 7, after "\$10,000", to strike out the comma and "together with interest thereon at the rate of 4 per centum per annum from May 31, 1945, until paid"; and at the beginning of line 10, to strike out "(together with interest)"; so as to make the bill read:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury is authorized and directed to pay, out of any money in the Treasury not otherwise appropriated, to Marie Jane Lewis, the widow of Carl Frederick Lewis, who served in the United States Medical Corps during World War I, the sum of \$10,000. The payment of such sum shall be in full satisfaction of all claims of the said Marie Jane Lewis against the United States for compensation for the amount which she would have received as sole beneficiary under United States Government life insurance policy number K-568,717 issued to the said Carl Frederick Lewis effective June 1, 1926, if such insurance policy had been in effect on May 31, 1945, the date of his death, the said Carl Frederick Lewis having failed to exercise his right to reinstate such insurance policy, after it had lapsed for nonpayment of premium, as a result of his reliance upon the erroneous written statement of the Director of Insurance, Veterans' Administration, that the cash surrender value of such policy had been used to purchase extended life insurance which would not expire until November 1955: Provided, That no part of the amount appropriated in this Act in excess of 10 per centum thereof shall be paid or delivered to or received by any agent or attorney on account of services rendered in connection with this claim, and the same shall be unlawful, any contract to the contrary notwithstanding. Any person violating the provisions of this Act shall be deemed guilty of a misdemeanor and upon conviction thereof shall be fined in any sum not exceeding \$1,000.

The amendments were agreed to.

The bill was ordered to be engrossed for a third reading, read the third time, and passed.

~~EXCERPT FROM REPORT~~

The purpose of the bill is to authorize and direct the Secretary of the Treasury to pay, out of any money in the Treasury not otherwise appropriated, to Marie Jane Lewis, the widow of Carl Frederick Lewis, who served in the U.S. Medical Corps during World War I, the sum of \$10,000. The payment of such sum shall be in full satisfaction of all claims

of the said Marie Jane Lewis against the U.S. Government life insurance numbered K-568,717 issued to the said Carl Frederick Lewis effective June 1, 1926, if such insurance had been in effect on May 31, 1945, the date of his death.

The purpose of the amendments is to preclude the payment of interest to the widow in accordance with Government policy.

AUTHORITY TO COMMIT CERTAIN PERSONS IN VIRGINIA TO ST. ELIZABETHS HOSPITAL IN THE DISTRICT OF COLUMBIA

The bill (H.R. 5543) to extend the provision of the act of October 11, 1949 (63 Stat. 759, ch. 672; 32 D.C. Code 417), to authorize the commitment of persons of unsound mind found on Federal reservations in Loudoun County, Va., to St. Elizabeths Hospital in the District of Columbia was considered, ordered to a third reading, read the third time, and passed.

EXCERPT FROM REPORT

The purpose of the bill is to extend to Loudoun County, Va., the provisions of law which permit the commitment to St. Elizabeths Hospital persons of unsound mind found on certain Federal reservations in Virginia and Maryland, and accordingly would extend to that part of Dulles International Airport located in Loudoun County the protection now available to that part of Dulles International Airport located in Fairfax County.

MILITARY PERSONNEL AND CIVILIAN EMPLOYEES' CLAIMS ACT OF 1964

The Senate proceeded to consider the bill (H.R. 6910) to provide for the settlement of claims against the United States by members of the uniformed services and civilian officers and employees of the United States for damage to, or loss of, personal property incident to their service, and for other purposes, which had been reported from the Committee on the Judiciary, with an amendment on page 1, line 4, after the word "of", to strike out "1963" and insert "1964".

The amendment was agreed to.

The amendment was ordered to be engrossed and the bill to be read a third time.

The bill was read the third time, and passed.

EXCERPT FROM REPORT

PURPOSE OF AMENDMENT

The purpose of the amendment is to provide that this act may be cited as the "Military Personnel and Civilian Employees' Claims Act of 1964."

PURPOSE

The purpose of the bill is to extend to other agencies of the Government the authority now possessed by the military departments, and as now provided as to the Coast Guard, with respect to the settlement of claims for loss or damage of personal property of members of the Armed Forces or civilian employees of those departments when the loss or damage is incident to their Government service.

The bill is intended to be in addition to, and not in substitution of, existing authority of any Federal agency to settle claims (except as to the statute specifically repealed by secs. 5 and 6).

STATEMENT

The legislation was introduced in accordance with the recommendations of an executive communication sent to the Congress by the Federal Aviation Agency.

The bill as passed by the House of Representatives differs from the draft which was submitted in the executive communication only with respect to the correction of the date in the short title and minor technical changes which include modification of the language as to repeal of existing law and related wording and its application to the military departments.

The bill as passed by the House of Representatives is further recommended by the Bureau of the Budget and the Department of the Interior, whose recommendations to the Senate Committee on the Judiciary are attached and made a part of this report.

In its favorable report on the bill the Committee on the Judiciary of the House of Representatives set forth the purpose of the bill and explained the minor amendments made to the bill as submitted by the executive communication as follows:

"A civilian employee of a military department or the Coast Guard, or a member of the Army, Navy, Air Force, Marine Corps, or the Coast Guard, can assert a claim for the damage or loss of personal property incident to the claimant's Government service, and the claim can be settled in accordance with the authority contained either in section 2732 of title 10 or section 490 of title 14 of the United States Code. The enactment of the provisions of H.R. 6910 would extend equivalent authority to all Government agencies so that all employees of the Government and military personnel would be entitled to assert such claims. Accordingly, the provisions of H.R. 6910 were drafted to conform with the language of sections 2732 and 2735 of title 10 where applicable. Those sections contain the latest enactments on the subject and are the result of a codification which had as its aim the restatement of the substance of the Military Personnel Claims Act of 1945 in a clear and unambiguous form which would follow accepted modern usage and the best methods of legislative drafting (H. Rept. 970, 84th Cong., 1st sess., pp. 8-10).

"Prior to the enactment of title 10 into positive law as a codified title of the United States Code, the provisions of those sections were included in the Military Personnel Claims Act of 1945 (act of May 29, 1945, ch. 135, 1, 69 Stat. 225, as amended). The provisions of the Military Personnel Claims Act were repealed when title 10 became law (act of August 10, 1956, ch. 1041, 70A Stat. 155). Equivalent authority to that provided in section 2732 of title 10 is provided as to the Coast Guard in section 490 of title 14 of the United States Code.

"In its communication recommending the enactment of this legislation, the Federal Aviation Agency outlined the history of this particular legislation. In 1952 the Civil Aeronautics Administration, the predecessor to the Federal Aviation Agency, was faced with the problem of obtaining relief for a group of Government employees who suffered personal property losses when Government-owned quarters on Wake Island were destroyed or damaged by a typhoon. The losses suffered by these employees served to emphasize the total lack of authority on the part of the employing agencies in that case to make administrative settlement in an instance where military personnel or civilian employees of the military departments could have been compensated in accordance with the provisions of the Military Personnel Claims Act. This prompted the Civil Aeronautics Administration to recommend legislation which would have the effect of ex-

tending similar settlement authority for claims for personal property losses suffered by employees of all Federal agencies, and would also provide for the persons who suffered losses in the 1952 typhoon, since it was proposed that the new provisions would be given retroactive effect.

"During the 86th Congress this committee concluded that the group of employees who suffered losses on Wake Island should be granted relief by special legislation. Accordingly, H.R. 8251 of that Congress granting such relief was favorably reported and ultimately became Private Law 86-258. In the 2d session of the 86th Congress this committee favorably reported H.R. 10978 which, with a committee amendment, with the exception of the changes referred to at the outset of this report, embodied the provisions of the present bill H.R. 6910. H.R. 10978 of the 86th Congress passed the House on April 4, 1960. During the 87th Congress the bill H.R. 10357 embodying similar provisions was reported by this committee and passed the House on March 19, 1962."

USE OF STATISTICAL SAMPLING PROCEDURES IN EXAMINATION OF VOUCHERS

The bill (H.R. 10446) to permit the use of statistical sampling procedures in the examination of vouchers was considered, ordered to a third reading, read the third time, and passed.

EXCERPT FROM REPORT

H.R. 10446 would authorize department and agency heads to prescribe the use of statistical sampling procedures in the examination of disbursing vouchers when it is determined that the accounting system and related internal controls are adequate and the economies will result from the adoption of such a procedure.

AMENDMENT TO THE GOVERNMENT CORPORATION CONTROL ACT

The bill (H.R. 10705) to amend the Government Corporation Control Act to change the General Accounting Office audit to a calendar year basis in the case of the Federal home loan banks and the Federal Savings and Loan Insurance Corporation was considered, ordered to a third reading, read the third time, and passed.

EXCERPT FROM REPORT

PURPOSE

H.R. 10705 amends the Government Corporation Control Act so as to place the General Accounting Office audits of the financial transactions of the Federal home loan banks and the Federal Savings and Loan Insurance Corporation on a calendar year basis. It also requires the Comptroller General of the United States to report to the Congress on each such audit not later than July 15 following the close of each calendar year.

Under present law the financial transactions of the Federal home loan banks and of the Federal Savings and Loan Insurance Corporation are required to be audited by the General Accounting Office for each fiscal year ending June 30; and the Comptroller General's report to the Congress on each such audit is required to be made no later than January 15 following each such fiscal year.

BACKGROUND

This legislation was recommended by the General Accounting Office in its most recent audit report on the Federal home loan banks



**Public Law 88-521
88th Congress, H. R. 10446
August 30, 1964**

An Act

78 STAT. 700.

To permit the use of statistical sampling procedures in the examination of vouchers.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, (a) That, whenever the head of any department or agency of the Government or the Commissioners of the District of Columbia determines that economies will result therefrom, such agency head or the Commissioners may prescribe the use of adequate and effective statistical sampling procedures in the examination of disbursement vouchers for amounts of less than \$100; and no certifying or disbursing officer acting in good faith and in conformity with such procedures shall be held liable with respect to any certification or payment made by him on a voucher which was not subject to specific examination because of the prescribed statistical sampling procedure, provided that such officer and his department or agency have diligently pursued collection action to recover the illegal, improper, or incorrect payment in accordance with procedures prescribed by the Comptroller General.

Vouchers.
Statistical
sampling pro-
cedures.

(b) Nothing contained in this Act shall affect the liability, or authorize the relief, of any payee, beneficiary, or recipient of any illegal, improper, or incorrect payment, or relieve any certifying or disbursing officer, the head of any department or agency of the Government, the Commissioners of the District of Columbia, or the Comptroller General of responsibility to pursue collection action against any such payee, beneficiary, or recipient.

Approved August 30, 1964.

LEGISLATIVE HISTORY:

HOUSE REPORT No. 1643 (Comm. on Government Operations).
SENATE REPORT No. 1425 (Comm. on Government Operations).
CONGRESSIONAL RECORD, Vol. 110 (1964):

Aug. 3: Considered and passed House.
Aug. 14: Considered and passed Senate.

